

Date & Time of Download : 05/03/2020 16:09:57

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Acknowledgement Number	1529904
Date and Time of Submission	3/5/2020 4:09:13 PM
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.



National Stock Exchange Of India Limited

Date of 05-Mar-2020

NSE Acknowledgement

Symbol:-	RAIN
Name of the Company: -	Rain Industries Limited
Submission Type:-	Announcements
Short Description:-	Analysts/Institutional Investor Meet/Con. Call Updates
Date of Submission:-	05-Mar-2020 04:06:52 PM
NEAPS App. No:-	2020/Mar/814/821

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RAIN INDUSTRIES LIMITED

RIL/SEs/2020

March 5, 2020

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>
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Dear Sir/ Madam,

Sub: Transcript of Earnings Conference Call – Reg.

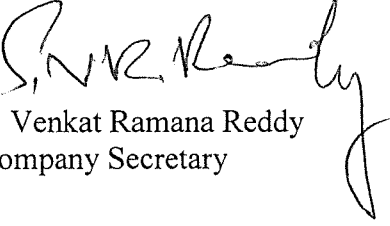
Ref : Scrip Code: 500339 (BSE) & Scrip code : RAIN (NSE)

With reference to the above stated subject, please find enclosed herewith Rain Industries Limited Transcript of Earnings Conference Call on the Annual Audited Financial Results of the Company for the Financial Year ended on December 31, 2019.

This is for your information and records.

Thanking you,

Yours faithfully,
for Rain Industries Limited


S. Venkat Ramana Reddy
Company Secretary



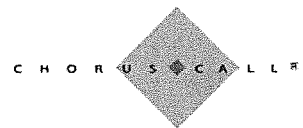
RAIN INDUSTRIES LIMITED

"RAIN Industries Limited Q4 2019 Earnings Conference Call"

February 28, 2020



RAIN INDUSTRIES LIMITED



**MANAGEMENT: MR. JAGAN REDDY NELLORE – VICE CHAIRMAN, RAIN
INDUSTRIES LIMITED
MR. GERARD SWEENEY – PRESIDENT, RAIN CARBON INC.
MR. T. SRINIVASA RAO – CHIEF FINANCIAL OFFICER,
RAIN INDUSTRIES LIMITED**



RAIN INDUSTRIES LIMITED

RAIN Industries Limited
February 28, 2020

Moderator: Good evening, everyone. I welcome all the participants to the Fourth Quarter 2019 Earnings Conference Call of RAIN Industries Limited

The speakers on today's call are Mr. Jagan Reddy Nellore – Vice Chairman of RAIN Industries Limited; Mr. Gerard Sweeney – President, 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 the 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 Mr. Jagan to provide you an update on key developments within the RAIN Group. Thank you. And over to you, sir.

Jagan Reddy Nellore: Thank you. And a very good evening to all of you. Turning to Slide #3 of the presentation. EBITDA of Rs. 4.54 billion in the fourth quarter was relatively flat compared to Rs. 4.72 billion during the Third quarter. We are pleased with the result in the fourth quarter, as we are normally impacted by seasonality of some of our products sold in Europe and North America due to the cold winter months. With consistent earnings during the last two quarters, we are slowly returning to a range that is more in line with our historic norms. After a prolonged period of being saddled with the high-priced inventory that was a drag on earnings due to adjusting the business to deal with the India's pet coke import restrictions.

We are extremely pleased with the company's safety performance as we completed 2019 with a total recordable incident rate of 0.29, which is by far the lowest in our history. Looking ahead, like many people, we are holding our breath literally in our Shanghai office as we wait to see the impact of Coronavirus on the Chinese economy. The longer the outbreak continues, the greater the ripple effect it will have on the movement of commodities and infrastructure development in China and the rest of the world. Since non-essential industries have been shut down in China to slow the spread of the virus. Our current estimate is that Coronavirus will be an economic factor at least in the first half of the current year. This combined with early turnarounds at a few of our plants means Q1 performance may possibly fall below EBITDA target. Overall, however, Coronavirus might not have any major or lasting impact on our operations or business performance.

On the Carbon side of our business, volumes were up about 7% and revenues were down about 1% sequentially from the third quarter. Despite lower revenues, EBITDA for the Carbon segment was Rs. 3.848 billion, a 7% increase over the previous quarter. CPC sales drove the volume

increase, and we benefited from having worked through high cost GPC inventory in the previous quarters. Average CPC sales realisation were lower compared to the prior quarter as we secured volumes during the period that we believe will help long-term demand for our product.

The Aluminium market continues to struggle with regards to prices for their finished products as the LME hovers around US\$ 1,700. In response, Aluminium producers are applying downward pressure on CPC prices, and we are doing the same on the raw material side to protect our margins.

On the Pitch side, volumes and revenues were down compared to the previous period. As we recall, the previous quarter benefited from a sale to a non-traditional market that was not expected to be realized again in Q4. Volumes of other carbon products were down primarily related to seasonality that we see with our creosote and carbon black oil products during the winter months.

Turning to advanced materials, revenue for the segment decreased 17% compared with the previous quarter. This was primarily due to the seasonal production in engineered product sales, in particular our sealer-based products. In addition, downward sales of our CARBORES, specialty binders were the result of ongoing weakness in the steel industry and its downstream impact on the graphite and refractory markets.

Elsewhere, resins sales were impacted by continued softness in the global automotive market. Despite sluggish sales, resins and modifiers remain an important sub-segment for us. In particular, the closure of the Uithoorn plant in Netherlands next month, we have successfully transitioned its products line to our Duisburg facility in Germany. In doing so, we have also improved product quality and we believe that consolidating production at one facility will allow us to operate Duisburg near full capacity and with reduced operating costs. And as a result, we expect this restructuring will increase resins profitability in 2020.

Moving on, petrochemical intermediate volumes were down as a result of reduced throughputs due to increased raw material costs. Finally, sales of Naphthalene Derivates were impacted by a customer outage during the fourth quarter, and lower sales of certain modifiers that are going through a sunset cycle as products such as carbonless paper drift towards obsolescence.

On our Cement business, revenue decreased by 6% compared with the previous quarter. This was primarily due to a decrease in realizations in all the key markets as a result of sluggish market conditions. With this business update, I will not turn over the call to Gerry to take you through the industry and other business updates on Slide #4. Gerry?

Gerard Sweeney:

Thank you, Jagan. Good evening, everyone. It's a pleasure to speak with you all again. Turning to Slide #4. Global Aluminium production in 2019 was relatively flat year-over-year. Looking closely at the upper left-hand graph, you could see China had the largest decline at 3/4 of a million tonnes less production. From a pricing perspective, on the upper right side of Slide 4, the market

remains relatively weak, with the LME price falling to the low \$1700s per metric tonne, and even dipping into the high \$1600s this week.

As we noted on our last call, the restart of the largest North American smelter, and the resumption of production by a Brazilian smelter, coupled with reduced alumina cost following the resolution of Brazil's mining situation was expected to put downward pressure on Aluminium prices. On the lower left of Slide 4, you can see that exports from the US declined by more than 500,000 metric tonnes in 2019 versus 2018. This is in large part due to the India ban on imports of CPC, which interrupted our India blend strategy. We had planned to export at least 300,000 metric tonnes of CPC from the US to India, had the ban not been in place. China exports were relatively flat, and India naturally declined year-over-year.

On the lower right-hand side of the commodity prices for the major indices affecting our Advanced Materials business. Interestingly, the new IMO regulations went into effect in January but throughout the fourth quarter and to this point in the New Year we are not seeing a strong upward effect on the price of 1% fuel oil from these changes. This could be due to sufficient preparation of stocks to feed that demand or demand for 1% fuel oil just might not be what was expected. We will certainly see which is most accurate as we approach mid-year 2020.

On Slide 5, we have provided an update on the situation in India with regard to import restrictions that have been imposed on green petroleum coke. The most significant development here is that RAIN was granted an additional 104,000 metric tonnes of GPC allocation for the period April 2019 through March 2020. This means RAIN's 12-month allocation has increased to 657,000 metric tonnes, which meets nearly all GPC requirements for our existing rotary kiln facility. This is positive and it is a trend that we expect to continue each year.

Given this reality, coupled with the successful importation of our first shipment of anhydrous carbon pellets in December, we are aggressively pursuing the completion of the ACP plant in the United States to supply feedstock for our new vertical-shaft calciner in the Andhra Pradesh Special Economic Zone. I will discuss this more in a moment.

Moving to Slide 6, regarding our major capital projects. Construction of one of the two lines of our shaft calciner, which will be the most environmentally friendly plant of its kind is complete. And we have begun the preheating process. We expect to complete our first commercial sale before the end of March. In addition, the first shipment of major components for our ACP Production facility we are installing in India arrived earlier this month. As we discussed during our third quarter call ACP, which will be produced in India, and imported from a second plant being installed at our Chalmette - Louisiana facility, will provide us with more than half of the feedstock to eventually run the new shaft calciner. We expect both ACP production facilities to start up during mid-2020.

Turning to our major projects, the Hydrogenated Hydrocarbon Resins facility in Germany is expected to begin commercial operation by May 2020. We are very excited about the potential

for the advanced resins that will be produced from this new plant, which is pictured on Slide 6. They will position us as a leading European supplier of water-white resins for contaminant free adhesives in food packaging and hygiene products, as well as technical applications such as high-strength glues. While start of the commercial production is just around the corner, there will be a period before we see meaningful contribution to earnings, since we will have to ramp up the plant and then complete customer qualification programs, that will take several months.

Commercial operation of the HHCR facility will also mark an important step in the evolution of our Advanced Material strategy, enabling us to supply essential raw materials for today and tomorrow, and transition away from raw materials of yesterday. This is a two to three-year strategy that we are executing, and it includes the development of our proprietary ACP product as well as the closure of our Uithoorn resins facility in the Netherlands next month. Once this reorganization is completed, we believe RAIN will have a much better opportunity to expand our market share, add to our customer base, and most importantly, increase our profitability.

At the same time, we are not pinning our hopes solely on the materials of tomorrow. While some of our resins and modifiers have become obsolete, many of our legacy products are still critical for many of our customers and will remain so for countless years to come. When it comes to these well-established materials of today, the trick for us is to increase our profitability by continuing to take cost out of our system, while improving efficiency and productivity.

One of the ways we are doing this is through our global excellency center. During the past year, our research experts have helped us to realize cost savings with concentrated efforts on energy optimization, reliability, sustainable resources, and capacity debottlenecking, which helps to offset margin pressure. In addition, this team has enabled us to switch to more efficient modern technologies in our plant operations, allowing us to focus on data and analytics rather than our reliance on operator knowledge.

So whether its construction of Advanced Materials plant for the 21st century applications, the development of a new carbon based material that should help anode and Aluminium customers move closer to carbon neutrality, or our efforts to update and maximize our legacy operations, the two to three year evolution that we are going through will be transformative for our company. At the end of the day, we believe these efforts and investments will benefit our shareholders, customers, communities, and our planet.

With that, I now turn the call over to Srinivas, who will take you through the consolidated financial performance of RAIN. Srinivas, over to you.

T. Srinivasa Rao:

Thank you, Gerry. And good evening, everyone. It is a pleasure to speak with you today. In the fourth quarter of 2019, RAIN achieved consolidated net revenues of Rs. 28.09 billion compared to Rs. 34.28 billion in the fourth quarter of 2018. A decrease of Rs. 6.19 billion or about 18.1% reduction. This resulted from a decrease in revenue of Rs. 5.05 billion or 20.9% from our Carbon

business segment, and Rs. 1.13 billion or about 14.2% from our Advanced Material business, and about Rs. 0.01 billion or about 0.6% from our Cement business segment.

RAIN's consolidated adjusted EBITDA increased by Rs. 2,037 million compared to prior year. This resulted from an increase in the Carbon segment by Rs. 2,113 million offsets by decrease in advanced material by Rs. 54 million and about Rs. 22 million decrease in the Cement business segment.

Now turning to the next slide on Carbon segment performance. Revenue from our Carbon segment was Rs. 19.05 billion for the quarter ended December 31, 2019, as compared to Rs. 24.11 billion for the same period last year. During Q4 of 2019, the average blended realization decreased by about 20.6% due to changes in market trend, further affected due to the unfavorable impact of depreciation of the Euro and USD against Indian rupees by 4.2% and 1.2% respectively. Gross sales volume in the Carbon segment decreased by 0.4%, mainly due to a decrease in CPC by 1.7%, offset by an increase in CTP volumes by 2.3%, and an increase in other carbon products by 0.8% as compared to last year. Overall, due to the aforesaid reason, revenue from Carbon segment decreased by 20.9% in Q4 of 2019 as compared to Q4 of 2018.

Turning to next slide on performance of Advanced Materials. Revenue from our advanced material segment was Rs. 6.82 billion for the quarter ended December 31, 2019, as compared to Rs. 7.95 billion for the same quarter last year, a decrease of Rs. 1.13 billion or 14.2%. During Q4 of 2019, the decrease in volume was primarily driven by sluggish demand in the steel and graphite industry, coupled with weakness in the European automotive, adhesive and North American construction industry. During Q4 of 2019, the average blended realization decreased by 6.7%, driven by a decline in oil related products along with unfavorable impact from depreciation of the Euro against Indian rupees by about 4.2%. Due to these above said reasons, revenue from Advanced Material segment decreased by 14.2% during December 2019 as compared to December 2018.

Moving to the next slide on Cement business. During the fourth quarter of 2019, cement sales decreased by 0.6% compared to Q4 of 2018, due to decrease in the realizations by 1.5% which is partially offset with an increase in volume by 0.9%. There was a 13.3% increase in sales volume in some of the markets like Tamil Nadu, Karnataka, Maharashtra, Pondicherry and other smaller markets, which is offset by a decrease of 12.4% in markets such as Andhra Pradesh, Telangana, Odisha and Kerala, as compared to last year. In spite of volumes remaining relatively flat, operating performance of Cement segment was impacted due to sluggish market conditions affecting realizations and margins.

Moving to the next slide on debt. We ended 2019 with approximately US\$ 1.1 billion of total debt, including approximately US\$ 55 million of working capital loans. Net debt was US\$ 937 million, and based on the LTM EBITDA of US\$ 248 million, we ended the year with a net debt-to-EBITDA leverage ratio of 3.8x. Despite the ratio being above our targeted level, we are still comfortable here as our average cost of borrowing stood at 5.14%. And we expect to remain

stable since the floating rate portion of our long-term debt is tied to the EURIBOR, which is still negative.

Capital expenditure for the year totaled US\$ 170 million, of which US\$ 77 million was for our two major growth projects. As discussed in earlier calls, we maintained the promised level of capital expenditure for the year, even though there were new projects such as ACP and incremental CAPEX for ongoing projects due to changes in scope and technology. Working capital has continued to be a source of cash for us in the year, and until prices stop falling and the new projects become operational, we expect this trend to continue. With that, I will now turn the call over to the operator to start the Q&A session. Operator?

Moderator: Yes, sure. Thank you very much. We will now begin the question and answer session. The first question is from the line of Arvind Kothari from Niveshay. Please go ahead.

Arvind Kothari: Good morning sir. Good set of numbers given the volatility in the market. My first question was that, if we analyse the performance of other CTP Players, their operating margins have been declining and close to 12%, 13% now, and even for the next year they are guiding for EBITDA in that division which is 25% lesser. And if you look at performance of other CPC manufacturers, their performance too is pretty dismal or close to negative.

I wanted to understand how we are immune from that situation and our margins are seeing an uptick if we look at quarter-on-quarter?

T. Srinivasa Rao: Arvind, it is not correct to compare the performance of one manufacturer with the competitors. But we can tell you some differences are. that the capacities of RAIN in the distillation business are substantially higher than the capacities of other players. So those things will play a role in margins. And also, how close we are to the customer and how close we are to the supplier, that also will make a lot of difference in our business, because logistics costs are equally important.

Arvind Kothari: But if one of the major player which is there in the world of CTP is also projecting a lower EBITDA, do we also look at the similar scenario? Or we feel that we will be able to protect the margins?

Jagan Reddy Nellore: Well, we actually don't comment on the future projections, but we are cautiously optimistic going forward on our Carbon business and chemicals business.

Arvind Kothari: Great sir. Also sir, I recently got a chance to visit China last year and there the markets over there and the traders are suggesting that because of the Coronavirus issue a lot of refiners over there are not able to produce now, so there is a GPC shortage which is being projected in those markets. And hence the prices in the Chinese market have started going up for the GPC. And also, CPC capacities have been impacted a bit, which has resulted in CPC price also to go up. So, if I could add up, two questions related to that:

One, our tie-up with Sinopec is also there, so would our GPC sourcing be impacted in India? And what percentage do we source from Sinopec for our Indian operations? And second, do we see this as an opportunity of improving our realizations or spreads? Because our sourcing also is there from other markets where the cost of GPC would not have gone up that much.

Gerard Sweeney:

Yes, that's a good question. Obviously, right now, any of the situation with China is an evolving scenario, what I can tell you is, to this point we have not seen an impact on our supplies out of China, but that remains to be seen, because we don't believe that at this point we can necessarily say the full impact of what may happen has taken place. But we are not completely reliant on China for our GPC supply and we do have alternatives, if we are ultimately impacted in China from a GPC availability perspective.

Also, attached to this is that the development of our ACP production is designed such that it can help us to move away from what dependence we do have on Chinese supply and use more inferior raw materials. So, this is part and parcel of our strategy on ACP to diversify our supply portfolio and be able to move away from the Chinese GPC.

On the pricing side, the prices off late of GPC and CPC have edged up on Chinese product. We have not seen that necessarily flow through to us to this point. We have our long-term agreement with Sinopec. Also, again, as I really start to come full circle to understand pricing and to see what happens, we really have to look at the long-term. A higher price for GPC and CPC in China may not be, as you mentioned, really in the end of your astute question, sir. It actually could be a positive for us rather than a negative, because we do have more diversification than others in the industry, and a bit higher GPC and CPC price in China could be positive for us from a margin perspective in the long run. But we will be watching this very closely, because there are a lot of facets to this, that we have to follow and understand where they will settle as we move forward. And we see how this entire Coronavirus situation, shorter or longer will affect the marketplace.

Arvind Kothari:

Okay. Good. And sir, also if you could clarify, in the commentary you have said that EBITDA might not, you know, in the Q1 be as per our standard margin as we had penciled in. So, I mean, is the volume part being affected is what our fear is or the pricing also that we are fearing?

Gerard Sweeney:

Again, a good question sir. Yes, from a volume perspective, certainly first quarter from a volume perspective we are pretty comfortable, and we have not seen any meaningful interruption. Of course, we are not done with the first quarter yet, but we are entering the last month of the quarter. So, from a volume perspective, we don't have great concern. Where we are watching is, as you know, in our distillation business, we are tied to commodity prices and we do have a significant amount of WIP or work in progress from a product perspective that are pegged to commodity prices. So, we put that out there. Just from an openness perspective, quite honestly, with our stakeholders to talk about it, the recent movement in crude prices could continue to flow over into the various liquid products commodity prices. And that's really where we are looking at that could have an effect on us in the quarter.



- Arvind Kothari:** Okay. Sir, the Chinese liquid commodities are facing a shortage. I mean, there the prices are moving up. So, would that not be positive for us maybe two quarters down the line if we face some issues in a quarter?
- Gerard Sweeney:** Yes, that's another facet that we look at, sir, in order to What happens down the line really will remain to be seen. But the scenario that you presented, that if we have due to reduced refined production runs in China, if we see stronger overall refined product liquid prices, liquid product prices I should say, then that that will be positive for us on the distillation side. What we really need to watch as we are going forward is, will these reduced runs be batched with reduced demand because of essentially everyday life stalling in China overall. But we will be watching that, we all know this is a unique situation. And then how that ultimately flows, we have had a pretty tumultuous week. So, everybody's fingers and hands are feeling a little bit cinched based on predicting the future. So, we will have to watch that very carefully. Because on this Coronavirus situation, if it's shortened, if its lengthened, that will have an effect overall, not only potentially on China, but on other areas of the world. But right now, our volumes are unaffected in large part, and we certainly, certainly hope that continues to be the case.
- Arvind Kothari:** Thank you Sir, Thank you very much.
- Moderator:** Thank you very much. The next question is from the line of Vikram Sharma from Meraki Wealth. Please go ahead.
- Vikram Sharma:** Hello Good evening, Sir, in last quarter we guided our HHCR plants operation will start in Q1 2020, and now it has been delayed to Q2 2020. And also, commencement of operation in USA ACP plant has delayed from Q1 to Q2, and Indian ACP plant from Q2 to H2. So, I want to know what major difficulties we are facing in implementation?
- Jagan Reddy Nellore:** See, basically the HHCR plant, we have some equipment that actually has to arrive from Italy and other places. But now because of the Coronavirus the areas of factories that produce in Italy are not able to move the material now. And we don't know, so that's why we think there was mainly about a three-week delay so that's the reason for delay. Commercial production means, basically we may start trial operations as early as April, but to actually stabilize the plant it will take a month. So that's the reason why we said May.
- And in regard to the ACP plant in US and in India, these are the first plants that are being built in the world for ACP. So, it is actually taking us a little more time because by the time we understand, and we adjust and tweak the plant so that we have a better quality of material. So, it's taking a little extra time, so that's why there may be one to two months, of delay on the ACP projects.
- Vikram Sharma:** Okay. And sir, another question is, in profit and loss attribution, share of non-controlling shareholders reduced to 6 crores from 18 crores in last quarter. So, it is due to our profitability reduction in our joint venture or what is the main reason for this?



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- T. Srinivasa Rao:** The only non-control interest we have is, as you know, all are 100% owned by RAIN except the Russian operation. And the year end Q4 numbers will be always audited and taken into consideration the year end liabilities like retirement benefits etc. So, we can't strictly say that why the numbers have fallen, but operations per se has not impacted in Russia in Q4 of 2019.
- Vikram Sharma:** Okay, Thank you.
- Moderator:** Thank you. The next question is from the line of Viraj Mehta from Equirus Securities. Please go ahead.
- Viraj Mehta:** Hi Sir, how much debt repayment do we have in next one year?
- T. Srinivasa Rao:** We don't have any Scheduled repayment. I think they will start only in 2021 for the term loan B that we have. In high yield bond what is there, it is due only in March of 2025.
- Viraj Mehta:** And what is the maintenance CAPEX for this year, same as you guided?
- Jagan Reddy Nellore:** We don't guide, but the one thing is, we have to complete the HHCR and the shaft calciner project that are under construction. But we expect this year to be over US\$ 120 million, both including the maintenance capex and the funds required for the Expansion Projects, covering ACP plant, the SEZ and HHCR Plant.
- Viraj Mehta:** Okay, Thank you.
- Moderator:** Thank you. The next question is from the line of HR Gala from Finvest Advisors. Please go ahead.
- HR Gala:** Hello Sir, I just wanted to know a couple of things. In the beginning remark you said that the aluminum prices have truly been falling at around \$1,630. How will that impact the capability of aluminum companies that pay good price of CPC. Should the GPC and ACP cost should go up, so how are we going to protect our spread between GPC costs and the CPC realization? That's my first question.
- Gerard Sweeney:** Thanks. Yes, there's very little historic relationship between the price of CPC that we sell Aluminium smelters, and essentially their ability to operate. When we look at the LME and the price of the LME, small fluctuations in the LME do not usually have a large impact on whether smelters are operating or not, first of all. What we look at is, is the price healthy enough for folks over the long-term to operate. So, we are not terribly fearful that the most recent weakness that we have seen from the LME perspective will be long lasting, nor is it at US\$ 1,600 or in the \$1600s I should say, at a level that is not sustainable for profitability for most of our customer base.



Getting back to your specific question on protecting our spread, regardless of the price of CPC in the marketplace, we look to match our GPC to protect our margin. And we do that because of the wide palette of suppliers that we have globally to supply our global production. So, we frankly don't care if the CPC price is \$800 a tonne or \$200 a tonne, as long as we can set the raw material price in order to protect our margin in that. And while 2019 was a year that was very much in transition for us in the CPC business, because we had very high priced inventories of GPC that we were working off and it took us a prolonged amount of time to work them off because of the regulatory change in India, that is not the norm. It normally only takes us one quarter to a maximum two quarters to really reset our GPC prices.

So right now, we are pleased with the fact that we have been able to, despite the falling CPC price, we are pleased with the fact that we have been able to reduce our GPC costs in order to keep them in line and protect our margin in the business, and essentially reestablish it in the second half of 2019 versus the first half of 2019, if you look at the numbers. Now, is that margin as high as we would like it to be? Of course not. We would like it to be as high as it possibly can. But if you look, it is at a more normal level, and we will be seeking to protect that margin going forward in order to deliver better performance from the CPC business.

HR Gala:

Okay, that really helps, Gerry. My second question is regarding this ACP, how will our total cost of processing ACP will match with the CPC price that we can realize?

Gerard Sweeney:

Yes, the ACP is a product for us that, it's something that you can't look at it in isolation and just compare it straight up against regular GPC. If you do it that way, then you will look and just as you are deducing and saying, well, hey, if we are making ACP, then we are going to add cost. And my concern is, how are you going to make margin against that. ACP is a product that we have developed for exactly what we discussed in some of our commentary today. ACP is a product that essentially is designed to improve the performance of the anode of an Aluminium smelter. And that is through the introduction of ACP into the anode we should see results here. And our testing has shown it we should see a lower carbon consumption for Aluminium smelter. While this needs to be proven, we should see better current efficiencies for the Aluminium smelter. Also, it helps drive them to the all-important element in today's marketplace of carbon neutrality. And that's an important thing for everyone stakeholders in the new millennium. And second, as we look at it, there's clearly a higher cost because we are processing GPC which we don't do in a normal situation. However, with ACP, as we demonstrate, it should more than warrant the additional costs from the formulation of the ACP product. And therefore, enhance the performance and be a net cost saving and product enhancement for smelters over the long run. But this is a process that we will have to go through as far as demonstrating that value with our smelter customer base.

HR Gala:

Okay, that really helps. And the last question, what improvement can we see in the Advanced Material which has been not performing well due to a variety of factors which you explained. So how we will see next year for Advanced Material?



Gerard Sweeney: Yes, thank you. As a matter of fact, you are making my job easier with your questions, because this is your team them up for me and I am knocking them down the fairway, so to speak, because we are very excited about our Advanced Material strategy. As you know, over the last several years we even retitled our chemicals business to Advanced Materials, because it was very indicative to simply call that business a chemicals business, did not do justice to what we are doing and what our strategy is to produce essentially the product for today and tomorrow. And the Advance Material strategy, our advanced or environmentally sensitive and advanced sealers, our Carbores product, and now with the HHCR project that will be our transformative strategy, if you will, on our Advanced Materials. That to put it in cliché terms, should be our game changer quite honestly. So, this will take us away from a lot of the obsolete products that go into, you heard in Jagan's comments regarding carbon-less paper product, a lot of rubber applications and extremely simple paint type of applications. And to put it into advanced glues and other products that are very environmentally sensitive and environmentally responsible and very much the new wave of products that will let us better overall margins and put us on the front line of competitiveness versus those highly commoditized products. That said, in 2020 we are just going to be ramping that up. So, we don't expect the transitional change, but we are very excited about the way that this sets us up for 2021, 2022 2023 and beyond in that business.

HR Gala: Okay. And sir, what is our preparedness about the lithium ion battery chemicals?

Gerard Sweeney: Yes. The lithium ion battery is part of that Advanced Materials strategy. My apologies, I neglected to specifically mention that. The lithium ion battery products that we are making, the coatings as well as the highly concentrated carbon products going into that are really exciting and growing very quickly. What we are trying to focus our R&D group on is, we have come to create those based on the need for those products, which is largely coming from Asia. And we have been fortunate to be able to quickly modify our products to this highly specialized area in order to meet that growing demand. What we are trying to do there is to now transition to be able to predict where that industry is going and how we can be part of the solutions of where it will continue to go, and how we could add value to grow our volume. But we are excited about the potential in that area, but we would like to be a bit more established from the R&D platform perspective, and we are focusing there.

HR Gala: Okay thank you very much Gerry that really helps and wish you all the best.

Moderator: Thank you. The next question is from the line of Gunjan Kabra from Niveshay. Please go ahead.

Gunjan Kabra: Sir, congratulations for reporting good set of numbers. Sir my question is, when the aluminum demand is so sluggish globally, there is a low demand from auto sector also. And other calciners and distillers in China or say Europe or say India also are having a tough time in maintaining their margins. And whereas we have reported, since last two quarters we have reported very good margins in the Carbon segment. Sir, what is playing out so well for us? It is calciners or is it the low Inventory cost? And what is your general outlook for the year? And are these margins sustainable in long-term for a year or so?



Gerard Sweeney:

Yes, thanks for your question. You know, the global Aluminium industry is kind of its own Enigma. You can use the term sluggish to describe Aluminium for the last 10 years. And I don't say that to poke fun, but I say that to really just in many ways the global Aluminium industry hasn't lived up to any expectations that have been put forth. With that said, remember we play a role as a supplier to Aluminium and the role that we play is to be a competitively cost competitively desired supplier. What we focus on is, well, as I described earlier, pricing for our commodity, our CPC will fluctuate, what we focus on is really protecting our margin and ensuring that our smelter customer base are the Aluminium smelters in areas of the world where they can compete from a cost perspective. That's not always an easy thing to do and it's been transitional certainly over the last five years. But we try and focus our customer base on those that are properly placed on the cost curve, that strategically are considered strategically important to their own nation. And therefore, are protected from a tariff perspective.

If you look, the most vulnerable places, well, the most vulnerable place for Aluminium in the world is in China. Because comparatively, China, a majority of China's Aluminium capacity is higher placed on the cost curve, and therefore more vulnerable. So, right now that kind of gives you a view of the industry for the last several years. But as we look forward, the weakness and the concern that we are seeing from the Aluminium perspective is more focused and concentrated in China. And we think that reductions that would take place will likely take place due to demand in China, and therefore production in China. If you look, most of the rest of the world has done an effective job over the last five years of protecting their Aluminium industry from dumping out of China up against their domestic industries.

We expect that trend to continue. And we expect that if China is pressured due to their own consumption and demand, given that they produce roughly 55% to 60% of the global Aluminium produced in the world, that it will be China that takes it off. And I would just add to that, from our perspective, we do not supply any of our calcified petroleum coke into the Chinese market. Rather, we are we are focused on North South America, Europe, Africa, and really Southeast Asia.

Gunjan Kabra:

Okay Sir, Thank You.

Gerard Sweeney:

Thank you mam.

Moderator:

Thank you. The next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan:

Sir, my question is on Anhydrous Carbon Pellets. Should we assume that after it gets into production from H2 of CY 2020, the problem of GPC imports will go away as we will be producing CPC in India and even US from this material rather than GPC?

Jagan Reddy Nellore:

I think it should address to a good extent in India and the ACP should alleviate immediate concerns, but it will not meet the full capacity. But our plan is to produce partially in India and

partially in the US, then we will move the ACP here. But it should address the concerns to a certain extent in this year. And going forward, we have to see. And one more thing is the Ministry of Environment and Forest, as per the Honorable Supreme Court order, has to file the revised environmental emission standards for calciners in India. And the requirement is March 13th, that is six months from September 13th when the judgment came out. So, we are expecting that the Ministry of Environment and Forest should file by that date. And we are hoping that maybe the Honorable Supreme Court might actually reconsider this entire scenario. So, we are just waiting for the standards that will be filed by Ministry of Environment and Forest.

Bhavesch Chauhan: Okay. And also, our back-testing on this Anhydrous Carbon Pellets, how cost effective are they compared to GPC?

Jagan Reddy Nellore: See, the main advantage of Anhydrous Carbon is basically you can use inferior grade raw materials to produce a high-quality material and still produce a very high-quality finished material. So, there may be some cost actually for producing of Anhydrous Carbon Pellets, but the quality and low cost of the raw material we're going to get and the industry to supply actually will compensate for that, because it is making the entire process carbon neutral. Because when you actually produce calcined petroleum coke, there is a lot of carbon particulates that actually burn and there is carbon dioxide evolved. But here basically because of the palletization there will be no more carbon burning here, and the entire Volatiles that will be evolved is basically hydrogen, which makes it the cleanest power cogeneration, making it carbon neutral. So, that is a benefit actually for all the smelters that are also looking to reduce their carbon footprint. So, we think ACP going forward will be very strong material in our portfolio, to be able to service the Aluminium customers around the world.

Bhavesch Chauhan: Great Sir, thank you that was helpful.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Thank you Sir, for taking my question first thing, because there is heightened level of environmental concern around the world. And as you were mentioning that the new product, ACP, would help us reduce some concerns on the same, even from the point of view of our customers. So, does that mean that going forward we would want to convert our entire capacity into some sort of ACP rather than the current products?

Jagan Reddy Nellore: See, one thing is, ACP is a different plant, it's not a regular calciner plant, actually it's an engineered product. So, the investment to make ACP is also quite high. But ACP will become a good blend component for the green petroleum coke. Because if we can blend it, then actually the average quality of the calcined petroleum coke will increase. Because I don't think any customers will ask just for ACP product, but they will ask for a combination so that they get best of both worlds from a cost perspective as well as addressing the quality perspective also.



So, we may add, one or two plants more. But I don't think every plant will be actually replaced with ACP. Let us see basically how things go. But we think that it's a very important product because last week also we had the Metallurgical Society Meetings or the TMS meetings in the US. There was a lot of interest from a lot of customers actually on this and looking to test this material. So, we think it's a good product and it will be product of the future.

Sarvesh Gupta: Understood. And secondly on the margins front, so right now we are at a normalized EBITDA margin overall as 450 crores for the company. Now with this new expansion that we are taking, and which is going to get operationalized in this calendar year, what is the increase in our normal overall absolute EBITDA that we can hope to achieve once all these plants start working on full utilization, may be from 2021?

Jagan Reddy Nellore: As you are aware, we don't give future guidance. But we think it should improve, but we cannot give any future guidance.

Sarvesh Gupta: Okay. And I think somebody also mentioned on the call that we are planning to do around US\$ 100 million, if I heard correctly, of CAPEX in CY 2020. Is that is that right?

Jagan Reddy Nellore: We said US\$ 120 million.

T. Srinivasa Rao: That is all the expansion project towards ACP, vertical-shaft kiln and HHCR, these three expansion projects. Plus, the regular maintenance CAPEX.

Sarvesh Gupta: But how much is the regular maintenance CAPEX out of this?

Jagan Reddy Nellore: We think it will be somewhere about US\$ 60 million.

Sarvesh Gupta: Okay. That looks to be on the higher side, any particular reason?

Jagan Reddy Nellore: Because we have 19 plants, and we have environmental expenditures and all these things. So, with all this put together our maintenance caps not only this year, going forward also it would be in that range.

Sarvesh Gupta: Understood thank you Sir and all the best for the coming quarters.

Moderator: Thank you. The next question is from the line of Nandan Madiwala from Madiwala Investments. Please go ahead.

Nandan Madiwala: Hello thank you Sir, for taking my question and I just wanted to know that we started with the import of ACP, I believe that do we have to prove that ACP is different from GPC so that it does not form part of the allocation that has been given? Or it is considered as different?



- Jagan Reddy Nellore:** Actually, it was brought under a different HSD Code. Basically, petroleum coke is imported under HSD Code 2713 or 2711. But ACP was actually under 3801. This is similar to Soderberg Briquettes, which fall within the 3801 category, and anodes which actually has been brought under 85. So, we think this is a different product, but this is always subject to scrutiny, and the government agencies can check that and they can ask for it and we are here to provide the information. **Nandan Madiwala:** Okay. And just one more question on the Aluminium side. I see that over the last almost five years, the Aluminium inventory has been going down. So, we have seen an uptick in the last quarter. So, do we see that to sustain or any thoughts on that?
- Gerard Sweeney:** Yes, thanks for your question. There's actually been virtually no commentary about that. I did notice that there was a slight uptick. However, the inventories are so low at this point, the last five years has actually left, the last 10 years as shown just a greatly diminishing trend of LME inventories, and I think it's more representative of companies working off their stocks and then not keeping their stocks on the LME as much as they had from, well, historically, quite honestly, before 2010.
- But with that said, it I am not seeing too much concerned. And well, we are not in the Aluminium industry per se, we have not heard much in the industry for any concern about excess inventory overhangs and such. Again, I think at this point, there's more concern, probably more concerned about the long-term effects of the Coronavirus and how this could affect Aluminium versus the LME inventory levels at this point.
- Nandan Madiwala:** Ok got it thanks and all the best.
- Moderator:** Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.
- Jagan Reddy Nellore:** Thank you. After an improved second half performance in 2019, we entered 2020 cautiously confident. While the challenges of the past year are mostly resolved, except the ban on India petroleum coke which is still to be resolved, we believe that our new HHCR facility in Germany and the shaft calciner in India, along with the ACP plant that is also being constructed in India, will provide new revenue streams and open new markets for us starting second half 2020 and 2021.
- At the same time, given the continued sluggishness of the Chinese economy, as well as in some key markets such as automotive industry and graphite and steel industries, we know physical discipline is imperative. And of course, we will need to see the unknown impact of Coronavirus in the long-term. In this environment, we are committed to driving optimization and efficiency and those things are within our control. That means continuing to improve every aspect of our business and ensuring that our accomplishments are sustainable. When it comes to our financial performance, we must continue to aggressively manage our spending and eliminate expenses that do not add significant value for our company, customers or investors.



RAIN INDUSTRIES LIMITED

RAIN Industries Limited
February 28, 2020

During 2020, we are committed to building on what we started during this past year, improved financial performance, completion of our major capital projects and the introduction of new products like ACP and our NOVARES® pure water-white resins, which should be real differentiators for us. By building on these achievements, carefully managing our costs and successfully completing the two to three years strategies that I described earlier, we will be well positioned to meet the increasing rigorous expectations of our shareholders, customers and communities, and the planet we share. Thank you very much for joining us today.

Moderator:

Thank you very much. On behalf of the RAIN Industries Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.