RAIN INDUSTRIES LIMITED

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Q2 2020 Earnings Conference Call

July 31, 2020 at 4:00 PM IST

Management:

Mr. Jagan Mohan Reddy Nellore – Vice Chairman, RAIN Industries Limited

Mr. Gerard Sweeney – President, RAIN Carbon Inc.

Mr. T. Srinivasa Rao – Chief Financial Officer, RAIN Industries Limited

Moderator: Good evening everyone. On behalf of RAIN, we welcome all the participants to the Second Quarter 2020 Earnings Conference Call of RAIN INDUSTRIES LIMITED. Speakers on today's call are Mr. Jagan Reddy Nellore, Vice Chairman of RAIN INDUSTRIES LIMITED, Mr. Gerard Sweeney, President of RAIN CARBON INC., and Mr. 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. It is recommended viewing this presentation while listening to management's discussion. Before we begin, management would like to mention that some of the statements made in today's discussion may be forward looking in nature and 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 and I would request Mr. Jagan Reddy to provide an update on key developments within the RAIN Group. Thank you, and over to you, sir.

Jagan Reddy Nellore: Thank you. Good evening to everyone. I hope you are all well. And that life is returning to semblance normalcy in your part of the world. Here at RAIN, nearly all our production facilities have continued to operate without major interruptions. The lone exception was our operations in India, where our Calcination and Cement plants were halted for a few weeks due to the nationwide COVID lockdown in late March, April and early May 2020. As we reported during our previous call, we have been doing everything possible across our global organization to keep our people safe and plants operating so that we remain a strong link in the global supply chain.

In terms of the business. After a reasonably stronger first quarter, our second quarter performance more closely resembled that of the global economy at large. While our Q2 earnings receded like nearly every company and associated with our peer group, we were pleased to see that demand and production edged back up to pre-COVID norms in many parts of the world by June. Most notably for RAIN, the automotive sector started to re-emerge from its prolonged slumber and the global aluminum industry continued production through it all.

Of course, the potential for a second wave and/or a return to lockdown conditions in parts of the world would make it impossible to predict what the immediate future holds

for us. That said, if countries and regions can avoid a second wave of COVID, we anticipate that supply, demand and productivity will slowly but cautiously work their way back to the levels that we experienced in December, January and much of February earlier this year, which we expected could continue for March of 2020 before Coronavirus turned the world upside down.

With this as a background, turning to Slide #4 of the presentation. Revenues of INR 23.61 billion for the quarter, was a decrease of approximately 19% compared with INR 28.82 billion during Q1, and our adjusted EBITDA was INR 4.3 billion during Q2 compared to INR 5.6 billion during the first quarter of 2020.

Our Carbon segment was impacted the most with EBITDA of INR 3 billion, a decrease of approximately 32% sequentially and volumes off by approximately 17%. The significant reduction in sales volume was driven by a lack of demand related to COVID-19 across our portfolio of products as we anticipated and eluded to last quarter. April and May were tough months with regard to demand, and we saw inventory levels at all our global distillation facilities build significantly. Fortunately, due to advanced planning of our global response team, external storage locations were secured prior to the fall in oil prices and our actual need for the storage. These actions prevented our plants from having to be turned off and enabled us to hold inventory until market prices recovered some.

Our Advanced Materials segment EBITDA of INR 984 million was an increase of 4% due to the various factors. Certain sub-segments were especially impacted by COVID, as this part of our business is closer to the end consumer and reductions in demand are more immediate. However, some of this business is seasonal, as evident in our engineered products group, which benefited from the return of the pavement sealer business, as it typically does in the second quarter, which helped minimize the sequential performance impact from a volumes and margins perspective.

On our Cement business, due to the nation-wide lockdown in April and May, there was a decrease in volumes and revenue by approximately 30% and 15%, respectively, compared with the previous quarter. However, the realizations and EBITDA improved compared to Q1 2020.

I would also like to take few minutes to touch on certain events in India. Recent border issues with China have resulted in higher scrutiny of Chinese imports into India, and led to an increased focus on the Hon'ble Prime Minister of India's initiative to "Make in India." We have already seen some action related to this as domestic Aluminum smelters evaluate supplier's contribution to India's economy in their procurement analysis. The Government appears supportive of the domestic Aluminum industry, which will indirectly support their domestic suppliers, including, RAIN.

Also, while we are discussing developments in India, we are still awaiting the finalization of the national SO2 emission standards for the calcining industry. Our existing Vizag plant and the new shaft calciner have scrubbing systems that remove at least 98% of the SO2 emissions, so we are confident in our ability to meet any new standards. At the same time, it will be interesting to see what impact the new standards will have on the industry in general.

With this business update, I will now turn over the call to Gerry, to take you through the industry and other business updates on Slide #5. Gerry?

Gerard Sweeney: Thank you, Jagan. Good evening, everyone. It's a pleasure to speak with you all again.

Turning to slide #5. In the top left, we have our Carbon product sales prices and volumes. As you can see, calcined petroleum coke, or CPC prices were flat sequentially. From a volume perspective, in Q1 we benefited from spot sales, while China was shut down with COVID and unable to export CPC. However, in the second quarter, the situation reversed course as China had emerged from peak COVID conditions during April, was ramping up its production facilities as well as exports, which was the main driver of the sequential 17% reduction in volumes.

During the second quarter, we began to see the impact product-demand shortfalls globally would have on refining assets, as refiners scaled back production due to the impact of COVID-19 on travel. This is carried to the present and reduced the availability of GPC in some areas. While the availability of GPC impacted raw material pricing, our margins maintained during the quarter, and we have the opportunity to reprice our CPC sales to balance these cost increases going forward.

Looking at coal tar pitch sales, pricing and volumes fell during Q2 due to the reduced demand from smelters and graphite producers. This was mostly related to the impact of slowed shipments and the curtailment of a North American aluminum smelter we supplied.

From a coal tar raw materials perspective, the existing weakness of the steel industry has only been exacerbated by the COVID outbreak. Therefore, the anticipated recovery of the steel industry was probably one or two quarters away, as steel production continues to wane, impacting coal tar volumes. We are matching our raw material costs to pricing declines, but did see a time lag in achieving this during the quarter, which impacted margins.

In terms of Other Carbon Products, the average price for these products declined, which is not a surprise given the general collapse in commodity prices and the indexing of these products to fuel oil pricing. Volumes were also down primarily related to reduce demand from the carbon black industry, which was not deemed "essential", and impacted by a near halt in automobile manufacturing for mid-March to mid-May. This was further complicated by the lack of cars on the road, meaning fewer tire replacements as well.

Moving to Advanced Materials on the top right, the general theme for this segment again was reduced prices and volumes across the board. Resins sales were impacted by reduced demand for rubber and adhesives applications, particularly in the European auto industry. Naphthalene derivates saw reduced demand for our phthalic anhydride and super-plasticiser products. Volumes here were mixed as demand for paints and polyester remained steady but PVC-related consumption reflected the downturn of the automotive sector. Margins during the quarter were also tight since phthalic anhydride pricing is linked to orthoxylene, which remains depressed.

Our petrochemical intermediates saw a significant fall in prices as well, primarily related to BTX products. The raw material for these products is produced from crude benzene, which saw a similar decrease in its cost, helping us maintain margins.

Engineered products prices were down, however volumes were up due to the seasonal return of the pavement sealer market. Additionally, a bright spot in this segment during the second quarter was our PETRORES coating product for lithium-ion batteries as

prices increased in the quarter, as consumers increasingly opt for electronics and electric vehicles.

In the aluminium market, the LME price improved significantly during Q2. This was expected and is important as curtailments worldwide loomed as the price lingered around $1,400 per MT. The current pricing is closer to $1700 per MT which is much healthier. It remains to be seen, however, whether this price will hold, as many shifted their product portfolio from more specialised premium-quality metal for the aeronautics or automotive sectors to producing standard billets which are more easily inventoried. This can be seen in the build-up of LME inventories during Q2. We are seeing some signs of a positive turn with automotive manufacturing demand returning toward mid-year. If the markets continue down this recovery path, more opportunity will present itself during Q3. On the other hand, if there is another round of lockdowns, this recovery could stall quite abruptly.

On the bottom right side of the page, you can see the key market prices that impact not only our finished product sales but also our raw material purchases. In appearance, it looks like a race to the bottom. Obviously, there was material movement driven by the fall in oil-related prices. We have since seen them recover. While the majority of our product pricing does reset from quarter to quarter, the drastic fall in prices forced another inventory adjustment in Q2. We simply could not work through slow-moving inventories to reset our costs due to reduced demand from COVID.

Turning to our major capital projects on Slide 6, the ramp-up of our hydrogenated hydrocarbon resins plant in Germany is going according to plan, and we anticipate making our first sale of water-white resins late in Q3. Currently, we are working with customers, while they test over 100 product samples for stability, odor and color. We expect feedback from their testing in the next four to six weeks. To this point, the product quality has been a real bright spot from start up. Preliminary comments from a major customer indicate that our new NOVARES pure resins are hitting the mark and meeting expectations.

Also at the Castrop-Rauxel facility, we are progressing as planned with the installation of a dual-solvent process to replace and integrate our outdated carbo-indene and phenol

production facilities. We expect the DSP system to come online during the fourth quarter.

Turning to the vertical-shaft calciner project in India, upon receiving clarity from the authorities on raw material feedstock to the plant, we can commence operations within a quarter. Meanwhile, we are continuing to pursue alternate options for GPC that include procuring from domestic sources.

India has been perennially short of good-quality GPC suitable for calcination purposes. Our new ACP technology will enable us to upgrade the existing GPC produced in India that is unsuitable for calcination to convert into a blend component suitable for the production of CPC in incremental quantities. We are also in the process of having an internationally recognized lab conduct a side-by-side analysis of GPC and ACP, as well as calcined forms of each to demonstrate clearly that ACP is a superior product.

Looking ahead to the second half of the year, we anticipate that the economic impact of COVID will linger - and we are watching the potential that a widespread second wave could impact several continents. This would mean, new lockdowns that could erase the slow return in normalcy that we have seen to date worldwide.

In any case, we are doing all that we can to ensure that our employees remain healthy and safe. We are also focused on controlling our costs and securing a reliable supply of raw materials to feed our businesses. So we remain an unbroken link in the global supply chain.

These are uncertain times, and that is saying a lot coming from a company that has weathered its share of economic upheavals in crises over the last few years. Despite this uncertainty, one thing is certain, across the entirety of RAIN footprint, we are taking nothing for granted. We are watching the markets closely, and we are prepared to react as needed. Just as important, we continue to look for ways to eliminate or delay spending that doesn't provide a substantial return on investment. And we are reshaping the way we operate to take advantage of all that we have learned since the pandemic began. As the saying goes, “Strength-through-adversity,” What doesn't kill us, makes us stronger.

With that, I will 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 second quarter of 2020, RAIN achieved consolidated net revenues of INR 23.43 billion compared to INR 33.23 billion in second quarter of 2019, a decrease of INR 9.8 billion or a decrease of 29.5%. This resulted from a decrease in revenue of INR 6.25 billion or 28.9% from our Carbon segment, and decrease of INR 2.66 billion or 30.7% from our Advanced Material business, and INR 0.89 billion or 30.2% from our Cement business.

RAIN's consolidated adjusted EBITDA decreased by INR 165 million compared to the prior year. This resulted from a decrease in Advanced Materials segment by INR 246 million and a decrease in the Cement segment by INR 176 million, offset by an increase in Carbon segment by INR 257 million.

Now turning to the next slide on Carbon segment performance:

Revenue from our Carbon segment was INR 15.35 billion for the quarter ended June 30, 2020, compared to INR 21.6 billion for the same period last year.

During the quarter, the sales volume has decreased by 18.3%, and the average blended realization decreased by about 13%, driven by changes due to COVID-19 and the demand supply situation in North American market, and price pressure in the Asian market, coupled with the lower demand from the aluminum and graphite industries, which was offset to some extent by appreciation of U.S. dollars against Indian rupee by 9.1%.

Overall, due to the aforesaid reasons, revenue from Carbon segment decreased by 28.9% in Q2 of 2020 as compared to Q2 of 2019.

Adjusted EBITDA of the Carbon segment increased by INR 257 million, due to higher margins resulting from working through high cost raw materials in the earlier years.

Turning to next slide on performance of Advanced Materials:

Revenue from our Advanced Materials segment was INR 6.01 billion for the quarter ended June 30, 2020, as compared to INR 8.67 billion for the same quarter in 2019. During the quarter, there was a 20.5% decrease in volumes, which was driven by reduced demand due to the temporary shutdown of a few customers' facilities (due to COVID-19) and lower demand from the automotive, rubber, adhesive and construction industries. Volumes were also impacted by the closure of our Uithoorn facility in the Netherlands. The average blended realisation decreased by ~12.8%. Due to the aforesaid reasons, revenue from the Advanced Materials segment decreased by ~30.7% during Q2 CY20 as compared to Q2 CY19. Adjusted EBITDA of Advanced Materials segment decreased by approximately INR 246 million mainly driven by reduction in volumes and margins.

Moving to next slide on Cement business:

During the Second Quarter of CY20, Cement revenue decreased by ~30.2% compared to Q2 of CY19 due to an ~34.3% decrease in volumes resulting from the shut-down of plants in April 2020 and partly in May 2020 due to COVID-19, which has been partially offset by an increase in realisations by ~6.4%.

Cement EBITDA decreased by INR 176 million due to a fall in volumes.

Moving to the next slide on debt:

We ended the Second quarter with total debt of $1,188 million, including $87 million of working capital and other loans. Net debt was $992 million and, based on LTM EBITDA of $265 million, we ended the quarter with a net debt to EBITDA ratio of 3.7x. Despite the ratio being above our target level, we are still comfortable here, as our average borrowing cost stood at 5.03%, and we expect it to remain stable since the floating-rate portion of our long-term debt is tied to the Euribor, which is still negative.

Cash outflow on capital expenditures and plant turnaround costs for the six months ended June 2020 totaled $96 million, of which $47 million was for our two major growth projects HHCR and Vertical-shaft kiln.

Regarding liquidity, we ended the quarter with $196 million of cash in hand and $122 million of undrawn revolving credit facilities. Given current circumstances, we are

watching our liquidity position very closely in all regions to ensure that our ability to access credit lines is not hindered by performance. In addition, we continue to evaluate various government assistance programs in all the countries where we operate so we are prepared to access them when appropriate and to protect the jobs of our employees when we can.

With that, I will now turn the call over to the operator for Q&A session. Over to you, operator.

Moderator: Thank you. Ladies and gentlemen, we will now begin the questions-and-answer session. The first question is from the line of Rohith Potti from Marshmallow Capital. Please go ahead.

Rohith Potti: It's a heartening performance considering the current times. My first question is on our raw material supply. I just wanted to hear more of your thoughts on how we are placed on raw material availability for both GPC and the coal tar availability given these tough times?

Gerard Sweeney: Obviously, with the onset of COVID we were very concerned on how really these major industries, and specifically refining and the steel industry would be impacted. That initial concern was something that basically has worked itself through. Now, as I said in my comments, while we are seeing some reduction in availability for GPC in certain areas due to either shortened or changed crude runs, it's nothing that's overbearing to this point. The bigger impact that it had on us is based on some of this non-availability, we have seen during the second half of the second quarter and into the third quarter is that prices rose as China came back on. And from that perspective, we are dealing with the price increase. We have not repriced our finished products for the third quarter yet, and so we are able to price that in considering these increases to secure our margin.

On the coal tar perspective, we are watching it carefully. There is no doubt that there has been some disruption on the steel side because of curtailments and some of our traditional supply has been reduced. However, our global response team has done an excellent job of ensuring that our supply chain remains uninterrupted. . Granted, we are transporting this nominal part of the supply shortfall and sourcing it from farther away, which adds some cost to us. But by and large, it is not a significant amount of our needs.

And we are comfortable with where we are right now and have a plan B, should we see a recurrence or any changes as far as supply is concerned.

Rohith Potti: My second question is based on the debt. In the last call, Mr. Reddy had mentioned that we intend to pay down debt once our major capital expansion projects are done. So, I just was curious as to, if there is no second wave of COVID and if the situation slowly gets back to normal, by when do you expect to begin paying down the debt?

Jagan Reddy Nellore: Probably from next year onwards.

Rohith Potti: And my last question is on the expansion project. When do you expect the HHCR plant to begin contribution to our revenues? On the vertical-shaft calciner plant, with the ACP plants being pushed, will we see any issue with raw material availability for this plant, given we still are under the Supreme Court mandated limit of 1.4 million tonnes of GPC imports?

Jagan Reddy Nellore: HHCR project should start producing revenue in the Q4. From October onwards we expect to stabilize and then start producing material. We also expect that our samples should have been accepted by a lot of customers. Regarding the vertical shaft, we are evaluating a lot of options. One is, purchasing raw materials from the local market; W also expect that the Ministry of Environment and Forest will file the revised environmental standards soon. Thereafter, we are hoping that there should be some relief in the imports of raw material. We should be able to address this in the next few months with some clarity.

Rohith Potti: Okay, sure. Thank you for the detailed answers.

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

Arvind Kothari: My first question was regarding the situation in China. So the thing is that the other economies, while they are still facing shutdowns and other issues, China has not been facing. So with respect to refining production, in the medium-term, in fact, the refinery production from China being high can give them more GPC material. But also from the trend perspective, if you can highlight, how the refining capacity coming incrementally

in China can be detrimental to us? Because the same capacities are not being put up in the regions where we are located.

Gerard Sweeney: From the refining perspective and availability of GPC, China has not returned to pre-COVID Refining capacities. We are watching that carefully because they are still seeing a net reduction in availability of GPC. As far as their potential to export and compete against us, it's really no different than it has always been in China. So the impact that we saw sequentially from first quarter to second quarter, really, we had opportunity because of China being out of the market because they had the early onset of COVID, which was January for them, while it was March and into April for the rest of the world. We just returned to the same competitive position against China from a CPC and Coal tar pitch perspective that we have always had. There is nothing really surprising or unusual about what China is doing as they just resumed the exports. As we mentioned in our first quarter call that we benefited from higher volumes of CPC, in particular, because of their curtailments during the first quarter.

Arvind Kothari: And their capacities that are coming up in China regarding refining, would that mean a better material would be available from the GPC perspective to China over a long period of time rather than in the geographies that we are present?

Gerard Sweeney: There is not any meaningful new refining capacity coming up in China. As a matter of fact, we saw that over the last couple of years, there was a net reduction of refining capacity in China due to their own economics. We don't anticipate any material change in GPC within China. We have seen slowing of some exports, in particular to India from China related to some of the political tension between the countries and noted more scrutiny of Chinese imports into India.. Nothing that is structural to the market to this point of time.

Arvind Kothari: After COVID, the interest rates in the world have just collapsed, so how we are positioning ourselves regarding refinancing the high cost debt of 7.25% USD 550 million bonds Or the debt covenants that allow us to start prepaying from next year or maybe listing our U.S. subsidiary? If you have seen a lot of corporates doing that, a prime example being Reliance, which is trying to do the same. We also have an excellent subsidiary, which can fetch us great value in these situations. What is the management aiming at? Is the debt side or the equity side anything which is on the table?

T. Srinivasa Rao: If you look at our capital structure, we have a right distribution of debt between floating debt and fixed debt and also right mix between Euro currency and U.S. dollar. We have close to zero debt in India or Indian rupees. Our operating Indian companies are cash rich and they do not have any debt obligations.. And both the debt what we borrowed in Europe as well as the U.S. is for the acquisition. And the average cost of borrowing is at 5.5%. In a market like this, the COVID-19 related situation, it will be difficult to raise funds for any corporate or to give funds by any investor. It is not right to look at refinancing of the debt only looking at the temporary decline in the interest rates. You can borrow at the current rate, if it is indexed to LIBOR or EURIBOR, but we already have a structure in place, and we don't want to borrow any further debt. We will look at refinancing of the debt only after 2021 when the COVID situation might reduce, and also our expansion projects, HHCR project in Germany as well as the vertical shaft kiln project in India will contribute in 2021. We will have a stronger balance sheet or stronger earnings to go for the refinancing. So that is the time we can look at refinancing. I don't think we can reduce the interest rates substantially below the current average interest rate of 5%.

Arvind Kothari: And on the valuation, if we could take benefit of the valuation of our U.S. subsidiary by listing some, is that something which we might be thinking of because a lot of corporates are thinking on those lines and have created a lot of value for the shareholders?

T. Srinivasa Rao: But the only thing is whether you want to raise debt, or you want to raise equity, the market should be favorable and your earnings outlook should be good.

Arvind Kothari: So post everything is normalized, what would be our preference in terms of maybe refinancing or equity raising?

Jagan Reddy Nellore: We want to do a combination of both.

Arvind Kothari: Okay. Okay, great. Thank you so much.

Moderator: Thank you. The next question is from the line of Vikram Sharma from Miraki Welalth Management. Please go ahead.

Vikram Sharma: In Slide #11 of presentation, we have mentioned total debt in USD and 437 million euro-denominated debt is in USD or Euro? If it is in USD, then it has not adjusted with any exchange rate difference?

T. Srinivasa Rao: Actually it is raised in Euros only, we have converted the Euro debt into USD at the respective quarter end rates.

Vikram Sharma: Why there is no any change between Dec and June balance?

T. Srinivasa Rao: There is no exchange rate difference between Euro and USD between December 2019 and June 30, 2020.

Vikram Sharma: Why our working capital debt has increased? What were the main reasons for that? Like business activities were lower in last quarter.

T. Srinivasa Rao: This is a consolidated working capital debt. There could be cash in certain operating subsidiaries in Belgium, Canada, Russia, there could be incremental working capital requirement in other parts like U.S. and Germany. So in some countries we will be drawing working capital loans and in some countries will have surplus cash.

Jagan Reddy Nellore: As we indicated, we have been continuously producing during this quarter and we are holding it in inventories which was the main reason for increase in working capital. So that should reduce over the year.

Gerard Sweeney: Yes. Absolutely. That was the main reason.

Jagan Reddy Nellore: Yes. Over the course of the year, it should reduce.

Moderator: Thank you. The next question is from the line of Chirag Singhal from First Water Fund. Please go ahead.

Chirag Singhal: My first question is on the Advanced Materials segment. We saw substantial improvement in the EBITDA margins during second quarter. If we look at the first half, the margins have been 13% and 16.4%, respectively. And overall, yearly, our Advanced Materials segment reports somewhere around 9% to 11% margin run rate. Can you throw some color on outlook and margins what we can see in Advanced Materials in the second half of the year? Is this sustainable or more like one-off?

Jagan Reddy Nellore: We have been doing a lot of work in Advanced Materials, as we indicated in our several calls before. We do think that there is a lot of potential for Advanced Materials and especially with the HHCR coming into operations next quarter. We believe this is sustainable.

T. Srinivasa Rao: As mentioned in our previous conference call, we have shut down the loss making facility in Netherlands and the production volume has been shifted to our German plant which resulted in reduction of fixed cost. This is indirectly contributing for higher margins in the Advanced Material segment.

Chirag Singhal: For 2020, can we expect the margins in the range of 13% - 14%?

Jagan Reddy Nellore: We expect good margins, but we cannot give you a specific guidance.

Chirag Singhal: Coming to HHCR, you mentioned that it will start contributing to the top-line from fourth quarter onwards, is it possible to give what kind of volumes we can expect from HHCR plant in this year and the next year?

Jagan Reddy Nellore: We are producing well and able to sell our product also in some quantity or form but we cannot guess at this point of time. Once we receive the acceptance of all the customers, we do think that quantities will improve. Even before hydrogenation, there is demand for certain products and we are also selling those. So, it should contribute well but we cannot give any specific details at this point of time as it's still in a start-up phase.

Chirag Singhal: My third question relates to CTP and CPC. Coal tar, we understand that the global steel production was down substantially during the quarter. But if you look at the global aluminum production, ex-China, for the April to June quarter, it was down like 1% or so. So, the aluminum production has not fallen, while our CPC production volumes have fallen quite substantially, 20% sequential basis. What is the major reason behind this? Like I understand that our Indian plant was shut for a couple of weeks, but just to understand the trend going forward in CPC.

Jagan Reddy Nellore: With regard to the Indian plant shut down, one kiln was shut for two weeks and the other kiln was shut for almost five to six weeks. On average, there was a shutdown for one month which is one reason for lower volumes. As we indicated quarter-on-quarter, there was an increased demand for our products in Q1 because of the China shutdown during

that time, there was a lot of demand due to some spot markets. We think sustained demand should actually continue going forward, unless there is, again, a second wave of COVID.

Chirag Singhal: So, in the current month what kind of trend are you seeing?

Jagan Reddy Nellore: We are not seeing any shortfall and its normal.

Chirag Singhal: My last question is on the accounting side. We have adjusted for IndAS-116. We have recognized some INR 446 crores of right-to-use assets. What is the impact on the interest and depreciation if you can give me, I can adjust to the EBITDA?

T. Srinivasa Rao: It is about impact of USD 3 million per quarter incremental depreciation due to these leased assets. The interest cost should be very negligible, it should be less than USD 0.5 million.

Chirag Singhal: So overall, USD 3.5 million has gone from other expenses to interest and depreciation per quarter?

T. Srinivasa Rao: That's correct.

Chirag Singhal: Okay. That’s it, Sir. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Anubhav Sahu from MC Research. Please go ahead.

Anubhav Sahu: In your opening remarks, you mentioned about this greater scrutiny for products imported from China. Could you elaborate what it means for us? Is there a reduced import or dumping intensity of carbon products from China? Or is it that, the domestic end clients in the sale of CPC and CTP are looking for increased sourcing from Indian manufacturers?

T. Srinivasa Rao: Some of the public sector enterprises, they are giving preference to local suppliers. They are classifying the suppliers into three categories, depending on how much is the value addition they are bringing to the GDP. We feel that in that manner, the public sector enterprises are giving business only to companies which are producing within India.

Jagan Reddy Nellore: For example, recently one of the large aluminum companies in public sector came up with a tender bid condition that companies have more than 50% value addition in India will receive priority and then the second priority is 20% and 0% if it's totally imported. One thing that should work in our favor is that once our ACP plant starts, we should be able to upgrade the Indian raw material which is technically unsuitable today for calcination. We should be able to upgrade that and then increase the local content. It should help us in the medium term.

Anubhav Sahu: Would you be able to put a number for our market share in India, including imports for both CTP and CPC?

Jagan Reddy Nellore: India currently imports about 500,000 tonnes. Once our new plant comes, we still can go after that 500,000 tonnes. At this point of time, we cannot give particularly any market share.

Anubhav Sahu: Ok, got it sir. That is helpful. Thank you.

Moderator: Thank you. The next question is from the line of Gunjan Kabra, and individual investor. Please go ahead.

Gunjan Kabra: In the last con-call, where we talked about the aluminum industry, the LME price was around USD 1,500, and there was a wait and see approach to what is going to happen. Sir, now with the price of USD 1,700, what kind of a situation are we seeing in the market now? Wanted to understand your perspective on the happenings in the industry with respect to China and the rest of the world.

Gerard Sweeney: As far as the LME pricing and the trend that we have seen, the price that we saw during the first quarter was viewed by analysts and the industry followers as unusually low compared to their costs were seen. This was largely believed to be because of the instability that we saw from the COVID outbreak and the impact that it could potentially have that investors were a bit skittish. The health that we are seeing of the price was actually projected during the first quarter and the belief was that the price would improve just based on the supply demand parameters that the industry was seeing. The weakness that had been in China early in the first quarter strengthened, we saw the shipping strengthened greatly as well. So we are watching it carefully.

At the current USD 1,700, I believe the latest I saw was in the high USD 1,600s, it's not retreating abruptly. But there is quite a balance to watch here as far as we did see a rise, an uptick in LME inventories during the second quarter, not surprisingly, given the market disruption that we saw. But it will be important to watch the inventories during the second half of the year. And we believe that the price will likely follow the trend that we see in the inventories going forward. By that, I mean, if we see a continued increase in LME inventories, then we are likely to see price weakness and a retreat in the price moving forward. If we see stability or even decline in inventories in the second half of the year, that will bolster price and likely keep the price in a band between USD 1,600 and USD 1,800.

Gunjan Kabra: Can we expect some impact on the margins on the Carbon segment, particularly CPC going forward? Because of the increase in CPC prices and because of the tight green coke supply, so can we expect some impact on the margin going forward? Because with a lag for quarter only, I think we are able to pass the prices. Can we expect some more info?

Gerard Sweeney: In any material sense, no. Because of our ability to pass-through and where we are in the pricing cycle, so we will benefit from that in passing that through. Where we are watching more carefully is volumes during the second half to see if there is a fallout. To this point, other than the curtailment that we have seen in the major North American smelter that impacted us from a coal tar pitch perspective, we are not seeing much in the way of curtailments. Of course, we all know that the second wave of COVID is something that looms over us, and we will have to watch that carefully to understand what impact the second wave could potentially have on demand.

Gunjan Kabra: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Manan Patel from Equirus PMS. Please go ahead.

Manan Patel: My question is, again a continuation of sort of previous question on aluminum industry. I wanted to understand, like in 2008 and 2009 also we saw inventory buildup probably outside LME as well. As per the report, sort of financial investors are piling up aluminum inventory. And that sort of took a long time to work out. So do you see growth in actual

production of aluminum? While we have been hearing that electric cars and all will contribute to the growth in industry itself, but that has not come through. What is your take on that?

Gerard Sweeney: It's a very difficult comparison to look back to 2008 and 2009 and draw conclusions over the current market. Remember, the aluminum collapse, if you will, of the structured market in 2008 and 2009 was consistent with the global downturn, and a strategic decision by the key players to capture market share and dump product into the markets at need in order to bolster their economy. Without going too far into the industry structure, that situation doesn't exist anymore. The protective tariffs that have come up and been put in place, and the fact that now sitting in 2020, China is the dominant producer of 55% to 60% of the aluminum produced in the world, that their position in the market is materially different than the 35% to 40% market share that they enjoyed back in that time period. If the demand were to fall off, we have to watch how the market react to it. However, with the recent restrictions like anti-dumping duties that most countries have put in place, will protect the industry as a whole.

Manan Patel: In the last call, you mentioned that on the cost curve, a lot of Chinese capacity is sitting at the higher end. Do you see any bankruptcies in China or in west in the coming years if the price band is around USD 1,700?

Gerard Sweeney: Not at USD 1,700. When the market was sitting at USD 1,400, we had concerns, and we were watching closely the more marginal consumers and our potential exposure to payment with them. But at USD 1,700 it is by and large pretty healthy cash price for aluminum smelters. If they cannot survive at USD 1,700, they have pretty much already fallen out of the market because they are very high in the cost-curve. As far as China is concerned, we really don’t expect that to happen, although in areas of China from a pollution control perspective and from a demand for electricity perspective, we are still continuing to see the industry in China matriculate. In the west, if we retreat back towards USD 1,400, we will have to watch the more marginal producers, because they do tend to start getting under water from a cash turn perspective. But the USD 1,400 price is generally viewed by the industry as not sustainable, given their current cost structure.

Manan Patel: In regard to our Carbon business as a whole, so like past many years we have not seen volume growth as such. The major driver was probably price of CTP which shot up. So, do you see volume growth substantially increasing? Or what is your perspective in a medium term for our Carbon business volumes?

Gerard Sweeney: There is no doubt that the volumes and the overall performance of our Carbon segment over the last several years has been disappointing. Our strategy in particular related to CPC has seen nothing short of upheaval due to the regulation that has been put in place two years ago in India. We did have our India blend strategy where we brought product from the U.S and it was working very effectively. Our volumes will grow as we open our new shaft calcination plant as we wait for rulings on the permissibility of import and still seek allocations for our new capacity and we await official rulings on SO2 emissions related to the calcination industry. We are very comfortable in our place in the industry and our strategy for the Carbon segment. What we really need is to clear these hurdles and be able to progress because we do have available capacity.

Manan Patel: Understood, thanks a lot. That's it from my side.

Moderator: Thank you. The next question is from the line Manpreet Singh, a private investor. Please go ahead.

Manpreet Singh: I have questions around two areas. One is the vertical shaft plant and the other one is ACP. On the vertical shaft my question is that, is the construction complete on this and you are just waiting for possibly the issue of ACP to get sorted out and you start this plant? Or still there is some portion of construction left? And if yes, then what percentage of construction is left? How much capital expenditure you need to spend on it, and how long it will take?

Jagan Reddy Nellore: We are ready to start by middle of September and it is not far away. Most of the plant construction is done and only thing we were waiting for is the flu-gas desulphurization system and some equipment from that has to come from China and because of the COVID, it got delayed. Apart from that, there is no other delay. Main thing that needs to be resolved is the raw material issue. We are just trying to ensure that we get stable supply of materials and once we have that, we can start the plant at a short notice. As a matter of fact, we already started one kiln heat up early in March. We had to continue

because once you start a shaft calciner, you cannot stop it. So, we are continuing the heating for the last four, five months. We are hoping to get the issue resolved soon.

Manpreet Singh: My question is around ACP testing that you are getting done. Why are you getting this testing done? Were you asked by, let's say, some Indian authority or is it your own initiative to get it done? I think you said international firm, are you able to disclose which international firm is this? When do you expect the results of that laboratory testing to come?

Jagan Reddy Nellore: Firstly, test is being done because it's a product we have developed, tested it and already analyzed. But it is also good to have an outside party testing. As a matter of fact, apart from this outside party, also a few smelters which are already looking at this, it's not just only that lab. This is the world's most premier lab and we cannot disclose the name. But it's a world's best lab in carbon and they only focus on carbon and it is based out of Europe. We hope to get the test result in October.

Manpreet Singh: And as soon as you get the result, and hopefully it's going to be positive, then that will further help you build your case, if there are any concerns from the Indian authorities and then you can take the next step of starting the construction for the ACP plant.

Jagan Reddy Nellore: Yes, one of the reasons for withholding the construction of the ACP plant was the lack of labor. Whatever we had, we are concentrating on completing the Shaft Kiln CPC plant. So once that is done, then immediately we can start the ACP Plant.

Moderator: Thank you. The next question is from the line of Mohit Jain from Value Educator. Please go ahead.

Mohit Jain: My question is regarding HHCR. So how big is the market for HHCR? And what is our total capacity per annum to produce HHCR?

T. Srinivasa Rao: Our capacity is 30,000 tonnes. The market is much larger.

Mohit Jain: How big is the market globally, if you could just share some light on that?

Jagan Reddy Nellore: Globally, we cannot comment, because in China there are a lot of places. We think we will be one of the large producers in Europe. We also expect to supply a good amount

of material into the U.S. This is also food grade and we are in the process of getting approvals from the FDA in the U.S. All these approvals should be in place by October, then we should be able to continue supplies.

Mohit Jain: What are the margins, a ballpark figure on margins of HHCR on our revenue?

Jagan Reddy Nellore: We can comment on that because it depends on the raw materials. But one thing we can tell you is this plant has a unique capability to process the lower cost raw materials, which is not possible for others.

Mohit Jain: And the last question would be, can you list some competitors in this segment, globally?

Jagan Reddy Nellore: For HHCR the main competitors are Exxon and Eastman for us in Europe and U.S.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Jagan Reddy Nellore for closing comments.

Jagan Reddy Nellore: During our previous call, we told you that RAIN is in a unique position as an essential part of the global supply chain. As a result, our performance during the first quarter was relatively strong in the context of the global pandemic.

During the second quarter, however, COVID's cascading effect reached our businesses, as demand for our products fell sharply due to the virtual shutdown of airplane and auto manufacturing, coupled with the broader global economic impact of coronavirus on nearly every aspect of life and the nation-wide lock down in India.

Looking ahead to the second half of the year, we are cautiously optimistic as we watch certain parts of the global economy begin to re-emerge and reactivate. At the same time, we are acutely aware that COVID is far from contained in some parts of the world and that a second wave would significantly set back a recovery.

With that in mind, we are doing all that we can to ensure that RAIN is a low-cost, high-efficiency producer that is well positioned to weather the current situation – and to capitalize on a post-COVID recovery. We have taken steps to right-size our business to match earnings expectations, and even more significant and far reaching, we are working

across our global footprint to improve plant reliability, energy production and resource management.

Obviously, we need something approaching "normal" economic conditions for our business to return to normal – which was our pre-COVID trajectory. Nonetheless, we are confident that by continuing to drive efficiency, bring creativity to everything we do and introduce sustainable products for 21st century applications, we will further enhance our ability to complete … with or without COVID.

Thank you for joining us today, and best wishes for the health and safety of you and your families. We look forward to speaking with you again in next quarter. Be Safe. Thank you.