RAIN INDUSTRIES LIMITED

"RAIN Industries Limited
First Quarter 2020 Earnings Conference Call"

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RAIN INDUSTRIES LIMITED

CHORUS CALL®

MANAGEMENT:	**MR. JAGAN MOHAN REDDY – VICE CHAIRMAN – RAIN INDUSTRIES LIMITED** **MR. GERARD M 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 first quarter 2020 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 M. Sweeney, President of RAIN Carbon Inc, and Mr. T. Srinivasa Rao - Chief Financial Officer of RAIN Industries Limited.

During the call, the 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 relation section. It is recommended viewing this presentation while listening to the management discussion.

Before we begin management would like to mention that some of the statements made in today's discussion maybe 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, and I would request Mr. Jagan Reddy to provide you an update on key developments within the RAIN Group.

Thank you and over to you Sir!

Jagan Mohan Reddy: Thank you good evening to everyone. I hope you are all well and staying safe during this challenging time.

Here at RAIN we have been fortunate during the global Coronavirus pandemic. In every country except in India where stay at home orders have been implemented, our plants have been designated as essential businesses and have received requisite approvals to continue operations because they support the critical industries such as aluminium, steel, carbon black and petroleum refining industries.

On slides #3 and #4 we provided few key highlights on how 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. For example non-essential employees are working from home to reduce the risk of contaminating those who are critical to our production processes and we are using our chemical know-how to produce our own cleaning agents with disinfecting properties. In addition, our global safety, health and environmental group has been in continuous contact with the employees at our facilities and those working from home to ensure they have the latest information about the virus and best practices to remain healthy and safe.

We are acutely aware that continued operation of our plants is not only crucial for RAIN but also for the broader global economy and in our local communities.

To date, our diligence – knock on wood - has paid off. I am proud to tell you that since the World Health Organization declared a global pandemic on March 11, we have had zero work-related Coronavirus cases among our employees.

Turning to slide #5, as a result of continued operations I am pleased to report that we had a reasonably good first quarter. Our adjusted EBITDA of INR5.58 billion during Q1 was a 23% improvement over the INR 4.54 billion that we recorded in the fourth quarter of 2019.

Other than the second half of March month, the first quarter went pretty smoothly much as expected with the positive conditions from the fourth quarter carrying over and volumes and margins holding firm. We are pleased that our earnings improved sequentially as business conditions remain positive.

By mid-March however the situation became extremely uncertain due to the pandemic and oil price war between two large oil producing nations. The resulting collapse in oil prices had a material impact on our BTX, carbon black oil and fuel oil products which traditionally are highly variable to begin with. The volatility in this case though was exceptional and unique prompting us to take INR 900 million write down at the end of Q1.

As you are aware, the impact of the oil price and collapse in oil consumption has had broad repercussions across the global economy.

While our Q1 inventory adjustment was exceptional our consolidated performance was in line with the expectations.

In our Carbon segment Q1 EBITDA was up 14% compared to the prior quarter though revenues were flat.

This was the result of stronger than anticipated demand and dislocated orders that we picked up due to the early impact of Coronavirus on China and their inability to export shipments to global customers. As a result we gained some unanticipated spot CPC volumes.

The shutting down of the global economy over the last few months has resulted in swings in many commodity prices which have gone in both directions. Of greatest concern to us has been the impact on global refinery runs, which has affected us to varying degrees to this point while CPC prices began to rise early in Q1 the later weekend with the reopening of China. Likewise GPC prices were initially weak but have strengthened due to reduced refinery runs which cut GPC supplies in various parts of the world. We are watching the specific developments going forward as the recent events have pressured CPC prices while GPC price have increased. This margin pressure should be short-lived but will largely depend on the availability of GPC going forward.

On the pitch side of our carbon segment our performance was in line with expectations for the first quarter aided by increased volumes in Russia and the restart of major North American smelter.

Pitch prices have declined consistent with commodity prices and coal tar prices which protected our margins. The major area of concern for us has been cuts in metallurgical coke production again consistent with the impact of global pandemic. Reduced steel production and shutdowns at several plants have resulted in a 35% reduction in coke production capacity. We do not foresee this being an issue for us as we have taken several counter measures to secure additional supplies as a safeguard for our distillation business going forward.

In Other Carbon Products, volumes of carbon black oil went down in first quarter because of combination of factors including impact of Coronavirus on economic activity, loading issues at our facility in Russia and lower auto sales which showed a 20% year-over-year decline and that's really saying something, since 2019 was a very bad year for the auto industry. Conversely, creosote volumes were quite strong during this quarter and we expect second quarter to be a robust as the North American Rail Industry appears to be using this period of reduced travel to ramp up track maintenance.

Turning to our Advanced Materials segment, revenues improved marginally compared with previous quarters while EBITDA doubled compared to the fourth quarter of 2019.

During the quarter our engineered products business operated at full production capacity for our PETRORES coating product for lithium-ion batteries, thanks to solid electrical-vehicle sales.

Volumes of our CARBORES specialty carbon were also strong during the quarter, and that continued into April. More recently, though we have seen this volume moderate as European plants reline their blast furnaces.

Our resins sales during the quarter were strong, and our commercial team has been successful in gaining price increases as we transition our traditional product offerings to a competitive value proposition tailored to customer needs and requirements. In March, we also ceased production at the Uithoorn facility in the Netherlands and have successfully shifted production of profitable resins to our Duisburg plant in Germany. Just as significant the closure of Uithoorn will eliminate approximately $10 million in annual fixed costs without adversely impacting resins production or profitability

Moving to intermediates, the oil price war had a big impact on BTX and petroleum pitch volumes fell significantly. The petroleum pitch reduction was due to reduced distillation as fuel oil prices were too high as speculation about IMO rules that inflated prices and impacted availability. This is clearly no longer an issue. Naphthalene derivates also saw lower sales during this quarter and were impacted by disruptions in our system due to electrical outages that resulted in several days of loss production at phthalic anhydride plant.

On our Cement business, despite increase in revenue by 10% compared with the previous quarter, EBITDA remained near flat. 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 now turn over the call to Gerry Sweeney to take you through the industry and other business updates on slide#6.

Gerry...

Gerard M. Sweeney: Thank you Jagan and good evening everyone. It is pleasure to speak with you all again.

Turning to slide #6, global aluminum production increased by approximately 2.7% compared to prior year quarter primarily related to China and the Middle East. With most automobile and airline production facilities idled due to the pandemic over the last few months clearly demand is falling for primary aluminum. The aluminum industry is heavily reliant on these industries and we are pleased to see them slowly coming back into production. Due to the reduced demand, one North American smelter in the Pacific Northwest announced their closure during Q2 and others began to reduce amperages to their cells to keep production lines operating, lowering metal quantity in preparation for sale to the LME to turn cash. We are and will continue to watch these developments moving forward.

Turning to our major capital projects on slide #7 we lit the flare during March and began to feed C9 resin into the hydrogenation reactor of our new hydrogenated hydrocarbon resin facility last week. This was a major accomplishment by our team given the unprecedented operating environment they continued construction in. We are very excited to have reached this point since customers have been anxiously awaiting production of our new NOVARES pure water-white resins so far the product quality has been as planned, and we are excited about the potential it brings to this business. Commercial production has begun and we are preparing commercial-size test cargos for our customers to perform technical testing of the product which will take several months. We anticipate that HHCR will contribute to our earnings by year end.

Shifting to India, we had to delay the start-up of the vertical-shaft calciner due to the impact of the Coronavirus. Given the uncertain global situation, we now expect to commence operations in Q3 2020.

We also temporarily stopped the construction of anhydrous carbon pellet production facilities in the U.S. and India to minimize the possibility of Coronavirus exposure during this peak period to our existing operations. We now expect to commence operation of our ACP production facilities in Q1 2021.

With regards to developments in India we are awaiting the finalization of the national SO2 emissions standards for the calcining industry. The release of these standards appears to be the lynchpin to clarification on the restrictions imposed almost two years ago on the import of GPC and CPC. As we have stated in previous calls, our existing Vizag plant and the new shaft calciner have scrubbing systems that can remove at least 98% of SO2 emissions. We are confident in our ability to meet any new standard that might be imposed.

Looking ahead Q2 was traditionally our strongest quarter as industries come out of winter and ramp up their activities. That will not be the case this year. Q2 demand will be down due to these unprecedented events. Our major focus is on the forward outlook, meaning how quickly global industry will restart and ramp up and how it will impact demand for our products.

During the second quarter and until demand returns we see reduced global demand for aluminum, tyres and other automotive components due to the temporary closure of many automobile and airline production facilities that could have a cascading effect on demand for our Carbon and Advanced Materials products.

We are prepared with contingency plans in the event of reduced demand for our products.

We are taking nothing for granted in these uncertain times. We have ramped up cost-reduction programs already in place, watching plant profitability so we can act quickly reducing capital expenditures where feasible and closely monitoring liquidity to ensure we can weather the next two quarters. We are a versatile company that has seen many fluctuations in market conditions over the years. We will continue to monitor the market conditions and react based on circumstances that confront us. While the markets are fluctuating in an extreme mode currently, we are comfortable and confident in our position as a converter to maintain our margins and remain competitive over the medium term.

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 first quarter of 2020 the company achieved consolidated net revenue of ₹.28.82 billion compared to ₹31.78 billion in the first quarter of 2019, a decrease of ₹2.96 billion or 9.3% decline. This resulted from decrease in revenue of ₹2.18 billion or 10.2% in our Carbon business segment and a reduction of ₹0.44 billion or 5.7% from our Advanced Materials business and ₹0.34 billion a 12.5% reduction in our cement business segment.

RAIN consolidated adjusted EBITDA increased by ₹1,915 million compared to the prior year. This resulted from an increase in the Carbon segment by ₹1,801 million and increase in Advanced Materials by ₹287 million offset by a decrease in the cement segment by ₹173 million.

Now turning to next slide on the Carbon segment performance, revenue from our Carbon segment was ₹19.15 billion for the quarter ended March 31, 2020 compared to ₹21.33 billion for the same period last year.

During Q1 of 2020 the average blended realization decreased by 19.1% due to changes in industry-related dynamics which was offset by the favourable increase in volumes due to the timing of the shipments and impact from the appreciation of US dollar against Indian rupee by 2.9%.

Gross sales volume in the Carbon business segment increased by 11.1% mainly due to an increase in CPC by 17.4% and an increase in CTP volumes by 12.1% which is offset by decrease in Other Carbon Products by 6.7%.

Overall due to the aforesaid reasons revenue from Carbon Segment decreased by 10.2% in Q1 2020 as compared to same period last year.

Adjusted EBITDA of the carbon segment increased by ₹1,801 million due to increased volumes and margins in CPC business as well as having worked through inventories of high cost raw materials compared to prior quarters.

Turning to next slide on performance of Advanced Materials business segment, revenue from our Advanced Materials segment was ₹7.24 billion for the quarter ended March 31, 2020 as compared to ₹7.68 billion for the same quarter last year, a decrease of ₹0.44 billion or 5.7%. During Q1 of 2020 there was a 6.7% decrease in volumes which was driven by reduced production due to scheduled maintenance, weak demand from the North American construction industry and European automotive and adhesive industries and as a result of the closure of our Uithoorn facility in the Netherlands. During first quarter of 2020 the average blended realization increased by about 1.1% due to change in the product mix.

Due to aforesaid reasons revenue from the Advanced Materials segment decreased by 5.7% during first quarter of 2020 as compared to the last year.

Adjusted EBITDA of Advanced Materials segment increased by approximately ₹287 million due to improved absorption of fixed cost of existing facility by shifting resins volume from the closed facility in the Netherlands to Germany.

Moving to next slide on Cement business segment. In the first quarter of 2020 cement revenue decreased by 12.5% compared to the same quarter last year due to decrease in realizations by 6.6% and decrease in volumes by 6.3%.

Due to a lower volumes Cement EBITDA decreased by ₹173 million in the current quarter as compared to last year.

Moving to next slide on debt, we ended the first quarter of 2020 with a total debt of $1,168 million including $72 million of working capital loans and lease liability of $74 million recognized due to implementation of new Accounting Standard on Leases. Net debt was $1,003 million it is about one billion US dollars and based on LTM EBITDA of $273 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 5.2% and we expect it to remain stable since the floating rate portion of our long-term debt is tied to EURIBOR which is still negative.

Cash flow on capital expenditure and plant turn around cost for the quarter totaled about $60 million of which $29 million was for our major growth projects. Given the completion of HHCR plant in Germany the high cash outflow related to capital expenditure is not a surprise.

Regarding liquidity, we ended the quarter with $165 million of cash in hand and $162 million of undrawn revolving credit facilities. Given the 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. While we have not been put in a position to proactively draw on our lines of credit as of today, given the current economic situation monitoring of this situation has become a routine task. 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.

Current uncertainty has also caused us to increase monitoring of capital spending, further increases our cost-saving programs and reduce credit lines to customers. These efforts will position us to weather the storm that may come in a year where we are completing strategic capital projects.

With that I will now turn the call over to the operator to start the Q&A session.

Operator…

Moderator: Yeah, Sure. Thank you very much. We will now begin the question and answer session. The first question is from the line of Chirag Singhal from First Water Funds. Please go ahead.

Chirag Singhal: Thanks for taking my question. Sir just a couple of questions, first what kind of margins we will be expecting from the HHCR plant?

Jagan Mohan Reddy: See we just started operations and so hopefully, we should stabilize sometimes towards the end of third quarter and starting fourth quarter we should be fully operational and we just started so we cannot comment, but when it is running at full capacity the EBITDA margin should be well about 30-35%.

Chirag Singhal: Okay and sir now coming to the volumes in the current quarter as we mentioned in the commentary that we already are seeing a lack of demand and all so what kind of volume loss we will be seeing for the current quarter?

Jagan Mohan Reddy: You mean the second quarter? Second quarter we cannot comment at this point of time, we have seen some performance during the first half and now we have to see how it goes on in the second half, for the first half it was not so down but as you are aware, with this COVID crisis we really do not know what is going to happen tomorrow, so we cannot comment on the current quarter's performance but we know it will be weak.

T. Srinivasa Rao: First 45 days of the quarter we have not seen a big fall.

Chirag Singhal: Okay all right but you can give me the tentative capacity utilization rate at the current level?

Jagan Mohan Reddy: We do not have the policy of giving out monthly production numbers, so we cannot comment on that and especially commenting on during this crisis time is not the right thing.

Gerard M. Sweeney: Let me jump in at this juncture, I mean to just to give you as much of a response as we can at this time. If you note from our comments we have a lot of moving pieces it is not just a volume aspect here, we have pricing and margin pressure in some of our liquid products and such so we have a lot of pieces that are moving that is why as Jagan rightly put it and we have already said in our commentary the second quarter is clearly not going to be a strong quarter for us which it historically has been and we already are acknowledging that it is not going to be as good as our first quarter because of what has taken place which is impacting volumes, which is impacting our margins in different areas on different products so it really is a very evolving situation that regardless of how you look at it right now, it is a complex change from where we usually are.

Chirag Singhal: All right, okay Sir just one last question, on the inventory loss, so will it take a quarter to normalize for the inventory loss or will we see the extension of the inventory loss in Q3 as well?

Gerard M. Sweeney: No it is not anticipated, we do have fluctuations especially in our liquid products category, we do see fluctuations of our product prices as they are commodity based, so we see fluctuations from quarter to quarter, from week to week from month to month. We do not normally take write downs related to that, however, due to the pressure from the crude oil prices in four different product categories it was 70% drop off in values that is what necessitated the first quarter write down, there is no follow on contemplated to that we have even seen some recovery of the crude oil price off late but we do not expect that write-down to carry on.

Chirag Singhal: Okay all right. That is it Sir. Thank you.

Moderator: Thank you very much. We take the next question from the line of Rohith Potti from Marshmallow Capital. Please go ahead.

Rohith Potti: Thank you for the opportunity Sir and thank you for a detailed update on the current scenario. My first question is on our capital structure so I think we had a very efficient capital structure but with the changing facts have we changed our opinion on capital structure should we change it so that we have more equity and less debt so broadly when things normalize a little do you see yourself paying down the debt to bring some more redundancy into the capital structure as compared to before?

Gerard M. Sweeney: Jagan you can have a final say on this I would say in the current circumstances our major focus is our operations and our cash flows. I do not think in the chaos of what is taking place that we have given consideration to our capital structure, we were very comfortable with it as it exists today and the only other thing I would say is our focus is always to pay down our debt whenever possible and we will be keenly focused on that going forward as we emerge from this crisis.

Jagan Mohan Reddy: Just to add to that basically we have a debt that is payable only in 2025. We have no payments for next five years so from a debt perspective we are pretty comfortable and as you are aware we have been spending quite a bit of funds, internal accruals for expansions be it the HHCR project or the ACP project or the shaft calciner project in India, but now I think you know hopefully after these projects are completed we have no new projects in pipeline so all the cash accruals that may be collected in going forward will actually can be used for debt reduction.

Rohith Potti: Okay understood Sir, that was helpful to know. So the second question I have is in the last year towards the end you had mentioned that you intent to bring debt to EBITDA to 3x and I understand that with this current scenario that that the time period where you are targeting that would have changed so if you could speak a little about that, if you think it is relevant. The second question is in the debt itself is there is mention of covenants in the annual report that we have on our two facilities, the term loan as well as the bond that is maturing in 2025, how much of a cushion do we have in those covenants and is that something which let us say in the top five things that you worry about over the next year or is it that we are quite comfortable and if it is possible it would be helpful if you can share the covenants in a separate press release?

Jagan Mohan Reddy: First of all on covenants, I would like to address is we do only have incurrence covenants, means if you want to borrow additional funds then only we have to achieve those covenants or maintain those covenants otherwise just for a normal operations we do not need to worry about any of the covenants because our debts are covenant-free except during incurrence. Second is on regarding the debt to EBITDA as I said you know basically first of all with our capex projects, the new projects starting up and the markets for most of the products and our cost cutting, we expect our EBITDA to improve very well and keep meeting the debt to EBITDA ratios as we targeted and along with any repayments with all the surplus cash we are pretty comfortable meeting those debt to EBITDA ratios.

Rohith Potti: Okay thank you and one last question from my end is obviously the anode grade GPC availability and coal tar availability are extremely vital to our organization, it is obvious. So in the current scenario and over the next few months if you could give us a little more color on their availability across the geographies that we operate in India, Europe and North America?

Gerard M. Sweeney: We will start with coal tar first, we have very strong relationships, long-term relationships for our coal tar supply, however, this unique circumstance left us quickly moving to make sure that we have enough supply because we do have the opportunity to continue to run pretty much full at all of our plants worldwide, so we have done that. We have contingency in place or if we have any spot disruption of supply due to curtailments, we were comfortable with the plans we have in place for a kind of a plan B type of scenario and that is mainly because we have right now a global pandemic and depending on how economies emerge whether it is Asia, Europe or the Americas, it can be very selective moving forward and so we are watching that carefully but we are very comfortable with our tar supply and our plan B that if we need to move to it we can move seamlessly into that. On the anode grade GPC side as you said and as we have commented, it is murkier situation and that is just because for what I really described from the tar side and global steel production you now take that over to refining. What we have seen to this point is we have seen reduced refinery runs consistent with the reduction in demand for transportation fuels and as such they are just not running refineries and cokers as heavy. Right now the major area that we see of impact and it is pretty much globally is ultra low sulphur coke and in that area we have seen for these conditions and that ultra low sulphur coke has abnormally risen in price in an environment where you really would not expect it to be rising in price and that is just purely from a demand and availability dynamic perspective. However, things are moving very quickly where we are comfortable with our ability to get adequate raw materials, it is just obviously as we commented earlier at what cost and that is what we are acutely focused on so that we can maintain our margin and reach expectations in the business.

Rohith Potti: So thank you that is it for me I will get back to the queue, it is always a pleasure listening to your con calls.

Moderator: Thank you very much. We take the next question from the line of Akhilesh Kumar from Xplore Technologies. Please go ahead.

Akhilesh Kumar: Thank you for taking my call I joined lately, if you have commented already you can skip, I wanted to know about the GPC allocation you have not informed in the presentation, what is the status on that and have we got allocated for our new plant as well?

Jagan Mohan Reddy: See basically we expect the new allocation to be given next week for the financial year 2021 because of this COVID crisis there has been delays associated with that and now hopefully we should have the allocation next week and in regard to the new plant also we have applied but we will know early next week about the status of it but we have contingency plans also for that so we should be alright.

Akhilesh Kumar: Okay and there was a complaint from others that regarding import of ACP is there any update on that?

Jagan Mohan Reddy: **No,** actually as we may be aware we did actually import a small shipment into India and then subsequently there have been some queries, we addressed them but we do not have any response from them back again.

Akhilesh Kumar: I have one more query regarding HHCR plant, I remember in earlier calls Gerry has been informing us that many of our low value raw materials will be consumed by HHCR plants so in value terms how much it will be as we will be using our in-house raw materials for that?

Jagan Mohan Reddy: Let me put it like this, while we will be procuring both in-house we cannot mention exactly what is that, but I can tell you one thing is that based on our patents what we have filed for the HHCR project, we will probably have one of the lowest raw materials cost for any HHCR plant in the world, so all I can comment is that because our R&D team was very successful actually in trying to put use raw materials which are not used by others so it substantially reduces the cost. I can say that.

Akhilesh Kumar: Okay on working capital requirements front let us say we will be seeing an increase substantially from that plant going forward?

Jagan Mohan Reddy: No not really because the impact should not be much because the raw materials as I said you know some are in-house, for example the raw materials we are now using it comes 100% from in-house, but as we grow it may not be sufficient so we may purchase from outside but overall cost of the raw material may not be that high and one good thing is, for example, if the HHCR prices are down now so is our raw material price so we always target like in any other business be it calcination business or distillation business, our target is not always on the top line but on the margin , which is the delta between the raw material price and the finished product prices.

Akhilesh Kumar: Okay that sounds great. One last thing we are hearing a lot of news regarding China and chemical industry moving out of there and subsequently do we have any impacts positive or negative on our chemical products in Europe?

Jagan Mohan Reddy: No we do not think, but see whatever happens basically I think you know for example European Union has announced some COVID package yesterday and US has announced before all this should benefit us so it should be good for us.

Akhilesh Kumar: Thanks a lot. That is it.

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

Arvind Kothari: I had a question regarding the fixed cost of our business, so if for a period of a quarter, for example, if the demand is very weak so what kind of fixed cost we would be working with all the plants even if the demand scenario is not there, just to figure out how much debt could increase in the demand scenario remains low for a year or so?

Jagan Mohan Reddy: See that is a very difficult question to say because we do not know how much is the demand going to go down so we have the flexibility to reduce or shutdown a plant let us say for six months or eight months or nine months if the demand is going to come down, then as we operate several plants and basically we have the ability to shut down the plant, which has the highest operating cost so we should be able to manage to a certain extent on the fixed cost to a certain extent but again there are SGA costs and other things which cannot be managed but being in the developed countries actually being in European Union or the U.S., they are supporting quite a bit there with COVID packages and other things so we should come out all right but again today we are in a very uncertain situation so making any guesses now is difficult, so anything could be so that is why in our annual report we cautioned there that because we are not aware basically how this will unfold, not only us nobody is aware so we do not want to really comment on second quarter.

Gerard M. Sweeney: I am happy to offer related to your question is that from a major products perspective be it Calcined Petroleum Coke and Coal Tar Pitch, our volumes while a bit reduced are still moving so that is the very reason that our operations are still going so what Jagan is saying we have not seen a major impact to this point that is of great concern, what we need to watch is what is going to continue to happen with these industries as this continues to play out. Obviously with producing the products and especially our liquid products it comes down to the margin aspect of the volumes that we are selling in those areas we are seeing reduced demand for the liquid products, obviously we are seeing very much reduced prices and everything and so while on the major product side we are more comfortable, beyond that right now we are producing some products that we are having to push into a market that does not necessarily want them, which obviously never favors you from a margin perspective so this is what we are faced with and I want to just indicate that that is why we make a statement like we are comfortable with weathering this from a profitability perspective and where we will wind up it is still too fluid of a situation.

Arvind Kothari: Correct so another question was relating to this only, so I mean our capital allocation has always been to go for capex on a project earlier and these opportunities, but given the current scenario now, I mean demand scenario, going forward are we willing to alter that in terms of favoring debt payment more over newer capex or how is the management thinking about the future whenever things settle down and whenever we have normal demand coming back and cash flow coming back to our company what would be the variety?

Jagan Mohan Reddy: We did address this question before I do not know if you are there online but we did address this, we have no new projects, and our target will be debt reduction going forward with the cash available.

Arvind Kothari: Okay great one last thing on cement prices, have we increased cement prices because a lot of players have increased the cement prices?

Jagan Mohan Reddy: Yes they are improving, but the demand is weak because of the construction activity is not so full and you also have logistics issues because material is not moving but both of our plants are working as of now and it is fine, but we were shut down for almost about 40 days actually.

Arvind Kothari: Thank you.

Moderator: Thank you. The next question is from the line of HR Gala from Finvest Advisors. Please go ahead.

HR Gala: I just wanted to know in this CY2020, how much of capex we would be incurring. We already spent, you said, $60 million**?**

Jagan Mohan Reddy: So overall we expect to be over $120 million in 2020.

HR Gala: Okay and that will be completely all the projects?

Jagan Mohan Reddy: That includes all the new projects as well as the maintenance capex.

HR Gala: Okay so beyond that there will be no new projects coming up in CY2021 as of now?

Jagan Mohan Reddy: Yes.

HR Gala: Okay, my second question is as our ACP plant is now getting delayed, how are we managing in different markets the availability of GPC for the CPC manufacturer and I wanted to know what is this delta currently between say CPC price and GPC price if you can help me?

Jagan Mohan Reddy: See from an ACP perspective the main thing that is going to impact us is only for the SEZ project mainly the delay, but since we have delayed the SEZ project also by a couple of quarters we are going to be producing only some time in third quarter but we have enough, we will be initially procuring raw materials from within India and maybe other sources. We are evaluating so hopefully by first quarter we should be in production for the ACP plant so we should be fine from a raw material perspective and basically on the margins between GPC and our **CPC** is just normal, if you see in Q1 we are near the normal levels.

HR Gala: So how much it is like for example in this quarter we have $235 CPC price average so against that how much is the GPC price?

Jagan Mohan Reddy: See it varies by country, but on average I would say our normal is about $70 to $80 is the difference margin.

HR Gala: Okay. Thank you very much.

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

Gunjan Kabra: Sir I wanted to ask that the slowdown in the aluminium industry expected or rather I should say it has already been persisting since last three or four quarters or maybe more than that and COVID had just accelerated this trend further but what is the volumes and the margins in the Carbon segment, we have been able to maintain it and since the last three quarters we have been doing, we have been improving so there is a huge uncertainty in the market inventory is being piled up so and this is a scenario which we have seen for the first time so I wanted to gain a perspective from you then how do you see volumes and margins going forward and I see that the customers have some of the leading companies and they have been able to maintain their production numbers at a steady rate so is it fair to assume that we can expect a decent demand for our carbon segments?

T. Srinivasa Rao: Gunjan can you please repeat one after other, you are combining three four questions into single one.

Gunjan Kabra: My question is basically all our customers are the leading producers of aluminium and they have been able to maintain their production numbers at steady rates in last three, four quarters also when there was a slowdown in aluminium so is it fair to assume that the demand or the volumes can remain consistent going forward with a margin because when even if there is a slowdown in the last three four quarters also we have been able to maintain our CPC volume so can we do that now?

Gerard M. Sweeney: I think understood a portion of what you said so I will try to respond to it, right now in the CPC segment we are only minorly affected in volumes from the US versus our expectations for the first half, now margins are still an area that we are focused on as we said we are realizing some higher prices for our lowest sulphur components, our ultra low sulphur raw material supplies, in India we have seen some volume impact, we did take down also our operations there which means some higher cost that we are realizing and we are seeing the same higher cost for raw materials so that will impact us and I did hear you reference the last three quarters where we were establishing you know better margins overall and first quarter was a nice healthy margin as well so yes we are concerned. Looking forward what we are focused on is obviously most important to us is what is going to happen from a volume demand perspective, the aluminum industry, the aluminum price has been down, that concerns us we are at least pleased that the LME that was in the 1400s range is in now 1500 plus range that is positive, but there is so much speculation in the market right now of what is going to happen to the LME aluminum price, two-thirds of the people saying it is going to weaken and one-third saying, it is going to strengthen so this is why we are taking a wait-and-see approach to what is going to happen. In the absence of major curtailments we are reasonably comfortable with our ability to weather this storm in the calcination business, but like you are saying we have not seen something like this before, the world has not seen something like this before so obviously we are hoping for the best, but we are planning for the worse and we have several different layers of contingency of what we would do if we do see reduced demand so I know that is not exactly, it is not an exact pointed answer but that is really probably the best reflection I can give you of how management is approaching this and what we are experiencing now and what we are watching for developments more in the future.

Gunjan Kabra: Okay so one more question I wanted to ask is that the debottlenecking in the distillation business was done last year in 2018 and the premise was to allow flexibility of using either coal tar or petrotar as our raw materials so with the unprecedented fall in the crude oil prices so can we expect a better margin on the raw material efficiency can be maintained with the usage of this raw material and can this be an advantage to us?

Gerard M. Sweeney: Yes that is a good observation.. We have the flexibility to blend Petro Tar with Coal Tar in our distillation business and the lower Petro Tar prices will support such plan. However, only certain percentage of Petro Tar could be blended with Coal Tar and we maximize the distillation volumes, without compromising the quality of end-products. hat we are careful at watching is that the advantage will not remain very long if not enough coal tar is available and just demand factors take over in a market that is under supplied because of the availability of coal tar so we are cautious to make any forward-looking comments related to that and obviously the demand for our pitch product is going to be highly dependent on that continued demand from the aluminum industry going forward and whether we see curtailments. So making a comment on in the way that you presented your question in a sense yes in just looking at it from that one angle it could provide an opportunity for better raw material cost for us going forward however these other mitigating factors we have to watch how they play out in order to say that yes it would actually manifest itself to benefit for us.

Gunjan Kabra: Okay. Thank you for answering the questions, thank you so much.

Moderator: Thank you. The next question is from the line of Darsh Solanki, an Individual Investor. Please go ahead

Darsh Solanki: Thank you for taking my question I wanted to ask you that the 7.25% US Dollar bonds can they be prepaid earlier and since the interest rates in the US have almost come down to zero will it be possible to refinance this at a much lower cost?

T. Srinivasa Rao: Which bonds? We have bonds having interest rates of 7.25% now, so these bonds are repayable in April 2025 and we have a call option available from April 2021 onwards.

Darsh Solanki: Okay so considering the amount of cash we have do you think we will exercise the call option because 7.25% on dollar terms seems like pretty high?

Jagan Mohan Reddy: Yes basically as we generate more cash actually we have as Srinivas mentioned we can actually start paying off the debt but we do not want to pay with some penalty but otherwise or we can also pay off our debt in Europe, the EURIBOR loan without any penalty so we will decide and also there is a cash mechanism as our part of our loan covenant is basically if you have any surplus cash we have to use that to pay off the debt so far because we have been spending the money for capex so we needed the money but not going forward as we have the money we will actually start using the money to pay off the debt.

Darsh Solanki: Okay and I wanted to ask you what is the total capital being invested in the HHCR plant and could you give us some idea about the end use of the white water resins in the different industries?

Jagan Mohan Reddy: See the total capital between the ACP, HHCR and the shaft calciner is about a couple of $100 million.

Darsh Solanki: No I am just talking about the HHCR plant?

Jagan Mohan Reddy: HHCR is about $100 million.

Darsh Solanki: And could you describe what is the end use of the white water resins and what industries does it cater to exactly?

Jagan Mohan Reddy: HHCR basically goes into the hygiene industry, packing industry for example all the diapers all these hygiene products you know it is needed for example now the PPE what is going to be needed for all the plants around the world HHCR will be actually used for those so it is a product basically it is called very clean product.

Darsh Solanki: Okay thank you so much.

Moderator: Thank you. We will be able to take one last question. We take the last question from the Arun from MH Capital. Please go ahead.

Arun: Hello with the risk of repeating the question for the projects that are still outstanding which you have delayed, what is the capex that needs to be incurred there?

Jagan Mohan Reddy: I think between all the plants we still have to incur about $35-$40 million.

Arun: $40 million.

Jagan Mohan Reddy: As we mentioned we have $120 million this year so that should be sufficient for most of the projects.

Arun: Yes and is it going by the current run rate the cash generation of from operating cash flow of close to ₹400 to ₹500 Crores is it safe to assume that the company will be able to maintain that run rate.

Jagan Mohan Reddy: Yes we should be able to do that.

Arun: Thank you

Moderator: Thank you very much, we take that as the last question. I would now like to hand the conference back to Mr. Jagan Reddy for closing comments.

Jagan Mohan Reddy: Thank you all.

RAIN is in a unique position in that we are an essential part of the global supply chain. With that comes significant responsibility - to our customers, communities, employees and investors and we are doing everything in our power to ensure that we meet the expectations and requirements of all our stakeholders during the extraordinary period.

Prior to the pandemic our business had generally returned to normal. In fact if you look at our LTM EBITDA, we have been at our almost historically normal levels and had consecutive strong quarters for CPC volumes.

That said we are watching the markets closely - very closely and we are prepared to react as needed. We understand that the future is cloaked in uncertainty and we are prepared for any eventuality. We are also taking several proactive measures to reduce, eliminate or delay spending that does not provide a materially beneficial impact to our operations or our customers.

At the same time we are taking stock of what we have learned during the past three months while managing to keep all our plants running and our employees free of work-related Coronavirus cases. Since the pandemic began, we have become smarter and more efficient in how we run our businesses. We now need to capitalize on what we have learned and how we have adapted to make us a stronger and more competitive company.

Thank you for joining us today and best wishes for the health and safety of you and your family. We look forward to speaking to you again in August.

Moderator: Thank you. Ladies and gentlemen on behalf of RAIN Industries Limited that concludes today's conference. Thank you for joining and you may now disconnect your lines.