



Q3 CY18 Earnings Conference Call @ 17:30 Hrs on November 14, 2018

MANAGEMENT:

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

MR. GERARD SWEENEY – PRESIDENT, RAIN CII CARBON INC.

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

MR. RYAN TAYMAN – VICE PRESIDENT (INVESTOR RELATIONS), RAIN INDUSTRIES LIMITED

Moderator:

Good day, ladies and gentlemen and a very warm welcome to the Earnings Conference Call of Rain Industries Limited to discuss the company's financial results for Q3 FY2018. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ryan Tayman -- Vice President, Global Treasury. Thank you and over to you sir.

Ryan Tayman:

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

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

Before we begin I would like to mention that some of the statements made in today's discussion may be forward looking in nature that could be affected by certain risks and uncertainties. The Company's actual results could differ materially from such forward-looking statements. Now if you could turn to slide 3 and I would request Jagan to provide an update on key developments within RAIN Group, over to you Jagan.

N. Jagan Mohan Reddy:

Thank you, Ryan. A very good evening to all the participants.

In the third quarter of 2018, RAIN achieved a Consolidated Revenue from Operations of ₹34.9 billion, adjusted EBITDA of ₹5.6 billion and Adjusted Net Profit after Tax of ₹2.0 billion.

After a 12-month period wherein our raw material costs were relatively lower compared to the rising prices for our finished products resulting in increased Adjusted EBITDA – we saw a return to more typical market

conditions in the third quarter. Raw material costs caught up with our average sales prices, which had topped out and even declined somewhat, and that was one of the causes for the reduction in quarter-over-quarter Adjusted EBITDA.

Beyond the shrinking gap between raw material costs and average selling prices, several other factors impacted our performance during Q3. The first was a drop in volumes after several quarters of steadily growing demand. For the quarter, total volumes were down 83 thousand metric tons – 117 thousand metric tons from our Carbon segment, which was marginally offset by an increase from Advanced Materials and Cement segment. These lower volumes played a significant role in the quarter-over-quarter decrease in Adjusted EBITDA. Another was increased logistical costs due to low water levels on a major European transportation route. While we had anticipated a reduction in third-quarter volumes based on contractual shipments, the situation was further complicated by some customer outages and exacerbated by the India petcoke ban. We anticipate further impacts in fourth quarter from the resetting of prices, transportation disruptions and the India petcoke ban.

Addressing the ban, a sudden ruling by the Honorable Supreme Court of India on July 26 that prohibited the importation of petcoke forced us to radically shift production schedules and reroute raw material and customer shipments, while simultaneously working to gain an exemption to the import ban. The ban also required us to use more of our higher-cost inventory in India during the quarter, since we were unable to import the lower-cost grades that we would typically blend with small amounts of the higher-value Indian CPC to meet customer requirements. Gerry will provide more on this subject in the coming slides.

Our third-quarter earnings were also impacted by restructuring activities in Germany, where we are closing few production units that no longer meet our investment and return criteria. A \$2.9 million expense was taken for associated costs incurred during the quarter, and we will expense the remaining restructuring costs during the subsequent quarters. Beginning in the second half of 2019, we expect the restructuring to yield an annual run-rate savings of \$4 million after considering all the effects of the restructuring.

Finally, we incurred expenses of approximately \$2.0 million during the third quarter for long-term strategic projects the company has initiated to improve the profitability of our Advanced Materials business and to centralize its operations.

Now, turning to Slide 4 ...

Gerry will take you through industry updates on the next slide of this presentation.

Gerry ...

Gerard Sweeney:

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

On the chart to the left, you can see that there has been very little growth in aluminum production compared to the prior year. This is primarily related to delayed restarts in the United States and a decline in production from China. United States aluminum production was further impacted during the quarter by two technical disruptions that caused plants to come offline. In general, the U.S. market outlook for aluminum continues to be bullish due to the tariffs that have been implemented. By contrast, in China we have seen the opposite. The Chinese aluminum market grew by 5.5% last year; however, in 2018, the market appears to have contracted due to a tightened supply of alumina and higher costs, especially for energy. It has become harder for the higher-cost Chinese plants to compete due to falling SHFE pricing and the three-month lows on the LME for exported aluminum, as well as a weaker Chinese economy. On a global basis during the last quarter, the aluminum market has been fairly turbulent due to conflicting signals related to sanctions, labor disruptions and plant closures, as well as reduced car sales in Europe. On the chart to the right, you can see that we have had a fairly long run of upward pricing for both crude and fuel oil. The upward trend has been beneficial for the company, as we are able to maintain steady margins for the liquid products these are indexed to. On the negative side, we did see some weakening of the benzene quotations in the quarter.

Now, let's turn to slide 5 on the petcoke ban in India.

On July 26th, the Honorable Supreme Court of India issued a ruling that banned imports of petcoke for use as a fuel, in response to growing environmental concerns surrounding smog and air pollution. While passing this wide-sweeping ban, the court did provide exemptions for some specific industries, namely the cement, lime kiln, calcium carbide and gasification industries. The cited reasoning for exempting these industries was that they use petcoke as a feedstock rather than a fuel. However, the exemptions did not include calciners or aluminum smelters – despite the fact that these industries also use petcoke as a feedstock.

As a result, our company had to develop alternative plans for shipments of GPC and CPC that were headed to India prior to the July 26 ruling, as well as redesign our sales and supply plans.

The shipments already bound for India received special permission to be stored at the port once they arrived in Vizag, resulting in unplanned storage costs. The petcoke ban also resulted in unanticipated import tariffs on GPC and CPC that had been shipped to Vizag for blending prior to the court's ruling. Before July 26th, our intention was to export much of that calcined and blended material back out of the country to customers in the Middle East and elsewhere. Doing so would have allowed us to avoid expensive import tariffs, since the CPC would not remain in India. Instead, since the import ban cut off our ability to resupply the Vizag plant, we had to curtail exports from India to ensure we would have the inventory of CPC required by our aluminum customers in India until this situation could be resolved. This also meant that shipments that would have been exported from India would now be coming from our calciners in the United States, resulting in incremental costs related to storage, import tariffs and legal fees in India, as well as some costs that will impact fourth-quarter earnings.

On October 9 – two and a half months after its original ruling – the honorable Supreme Court of India provided an exemption to calciners, allowing our industry to import up to 1.4 million metric tons of green petroleum coke per year as a feedstock in the production of calcined petroleum coke. The court also provided the aluminum industry an exemption to import up to 500,000 tons of CPC with a sulfur content of 3.5% or below, which is manageable. Absent from the ruling, however, was an exemption for CPC imports by the calcining industry. At our

Vizag plant, we have imported as much as 250,000 metric tons of CPC in a year from our U.S. plants and other global sources for blending to support Indian Aluminum industry and export markets.

Total domestic Indian CPC requirements are 1.6 million metric tons per year, and the domestic aluminum market requires approximately 1.4 million metric tons of CPC per year based on current production volumes of approximately 3.4 million metric tons. It appears that the court has aligned the exemptions with current calcination and aluminum production requirements. Unfortunately, this leaves no room for the expansion of either industry. We are also approaching the Indian Regulators to permit import of (i) CPC for blending and re-export of CPC to Customers outside India; and (ii) GPC for its Greenfield CPC Plant under construction in the Special Economic Zone (SEZ). Although SEZ plants have certain additional privileges for importing Prohibited or Restricted Items, RAIN will consider all options including approaching SC, as may be necessary. We will keep you updated on progress as this situation evolves.

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

T. Srinivasa Rao:

Thank you, Gerry, and good evening everyone, it is a pleasure to speak with you today

In the third quarter of 2018, RAIN achieved consolidated revenue of ₹34.7 billion compared to ₹30.4 billion in third quarter of 2017, an increase of ₹4.3 billion or 14.3%. This resulted from a ₹2.9 billion, or 14.6%, increase in revenue from our Carbon business segment and a ₹1.4 billion, or 17.1%, increase in revenue from our Advanced Materials business segment.

RAIN's consolidated adjusted EBITDA decreased by ₹1.1 billion or 16.7% compared to the prior year with carbon decreasing by ₹1.0 billion and cement decreasing by ₹0.1 billion. While the overall performance of the business did decline year over year, given the recent headwinds and rising cost of raw materials, it's notable that our performance during the first three quarters of 2018 is the best for comparable periods in the company's history.

The margins of our Advanced Materials segment was weaker in the third quarter, primarily due to increasing raw material prices, the impact of U.S. tariffs on some Asian sales and a few technical issues at customer facilities. In addition, as Gerry mentioned earlier, the slowdown in the European automotive sector – which is related to car buyers' uncertainty about new environmental laws – had an impact on our Advanced Materials sales, since a majority of our products in this business segment are used by the auto industry.

Now turning to the next slide on Carbon business performance ...

Revenue from our Carbon business segment was ₹22.8 billion for the quarter ended September 30, 2018, compared to ₹19.9 billion for the same period last year, which we noted the previous slide as an increase of ₹2.9 billion, or 14.6%. During Q3 CY18, the average blended realization increased by ~35.8% after considering the favorable impact from the appreciation of the US Dollar and the Euro against Indian Rupee by ~8.9% and ~7.9% respectively. Sales volumes of CPC and CTP decreased by 21.1% and 13.9% respectively partially offset by 1.4% increase in other carbon products. Revenue from Other Carbon Products was primarily driven by a mix of price increases due to higher fuel oil prices and lower volumes due to European Union requirements related to the use of certain products. Overall, after the partial offset of improved realizations with lower volumes, the revenue from Carbon segment increased by ~14.6% in Q3 CY18 as compared to Q3 CY17.

The decline in CPC volumes was largely due to the timing of shipments, curtailments of few customers and delays before the calcining industry gained an exemption from the Supreme Court of India. The decrease in CTP volumes was primarily driven by disruption in the production at customer facilities.

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

Revenue from our Advanced Materials business segment was ₹ 9.7 billion for the quarter ended September 30, 2018, as compared to ₹ 8.3 billion for the same quarter in 2017, an increase of ₹ 1.4 billion, or 17.1%. During Q3 CY18, sales volumes in petro chemical intermediates increased by ~37.0%, which is offset by a decrease in

sales volumes of engineered products, naphthalene derivatives and resins by ~2.9%, 9.1% and ~8.1% respectively as compared to Q3 CY17. During Q3 CY18, the average blended realization increased by ~14.5% along with the favorable impact from the appreciation of the Euro against the Indian Rupee by ~7.9%. Due to the aforesaid reasons, the revenue from Advanced Materials business increased by ~17.1% during Q3 CY18 as compared to Q3 CY17.

Moving on the next slide on Cement business ...

During Third Quarter CY18, there was a mixed trend in sales volumes in our Cement business. There was an increase in volumes in certain markets such as Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Kerala, partially offset by a decrease in volumes in Odisha, Maharashtra, Goa and Pondicherry. Overall, our Cement sales realizations decreased by ~5.6% during Q3 2018 as compared to Q3 2017, and they were partly offset by an increase in volumes by ~6.1%. Due to these reasons, the revenue from Cement business increased by ~0.2%. EBITDA from the Cement segment decreased by ₹0.1 billion, due to increase in operating cost and lower cement clinker ratio.

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

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

Moving on the next slide on debt ...

At the end of the Third quarter of 2018, our Gross Debt was \$1,130 million which includes \$62 million of working capital debt. During the year the company has invested over \$34 million in the working capital required to run the business in the current high-priced environment. Despite this increase the company's working capital borrowings have only increased by \$12 million and the rest was funded with internal cash generations. In addition to this the Company used \$38.7 million towards long-term debt repayments during the refinancing that was completed in Q1 2018 and spent \$120 million on capital expenditures for the nine-month period ended 30th September 2018. This included expansion capital of \$24.1 million for our hydrogenated hydrocarbon resins production facility being constructed in Germany and \$5.3 million for the vertical shaft calciner we are building in India.

The Company ended the quarter with a Net debt position of \$ 1,011 million and net leverage ratio of 2.6X based on LTMQ3 Adjusted EBITDA. With \$ 101 million of cash on the balance sheet and unused credit limits of \$ 144 million, the Company is comfortably placed to meet its obligations and continue to make the required investments to meet market demands.

Finally, Finance cost has decreased to ₹1.1 billion in the current quarter compared to ₹1.5 billion in the prior year. The 23% reduction or ₹0.4 billion in savings is a direct result of the company's refinancing efforts which decreased its average interest rate to 5.3% compared to approximately 7.6% in 2017.

With that, I will turn the call over to the operator so we can take your question. Operator

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Vikram Karma from Fullfin. Please go ahead.

Vikram Karma:

Is the Q4 CAPEX of debottlenecking petro-tar plant is on schedule and what would be the capacity utilization there?

N. Jagan Mohan Reddy:

Yes, it is on schedule and we expect that to complete by December and the capital expenditure for the petro-tar debottlenecking is \$10 million.

- Vikram Karma:** What would be capacity utilization?
- T. Srinivasa Rao:** 85-90% utilization.
- Vikram Karma:** Sir, European facility reorganization cost to be spread over how many quarters and what would be its quantum?
- T. Srinivasa Rao:** The reorganization what we are referring is \$3 million is the cost that we incurred in September quarter. Maybe we will have a similar expenditure coming in the December quarter again.
- Moderator:** Thank you. We will take the next question from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.
- Sanjay Jain:** My question is on Carbon division. This performance is down sequentially, and you have given reasons because of the import ban and we had to utilize higher cost inventory. There is one more thing, the volumes are down, I understand that part, but average prices are also down for that segment. What will you attribute this to – is it a product mix or it has got more to do with the decline in the prices?
- Gerard Sweeney:** We acknowledge clearly the volumes were down. To give you a little more color on that, the volumes were expected in the third quarter to be down versus the second quarter just from a customer demand perspective. But also, the volumes were impacted somewhat based on the current ban and product moving around. Beyond that, we did see essentially what you will, and this is what Jagan was referring to in his commentary, we did see four quarters of very strong margins where sales prices were outstripping raw material advances and during the third quarter the sales prices did top out and, in some instances, did decline while raw material prices did continue to advance. So, there is a shared responsibility for the fall in profitability between both the volumes and the margins related to the quarter.
- Sanjay Jain:** Alright, could you give a sense on what kind of volume we should expect in the fourth quarter because you would have now good idea about how much volume we are losing because of the disruption in India in the CPC?

Gerard Sweeney: Our volume should be stronger, but we still will be working off the inventories and dealing with the pet coke ban disturbances that have taken place.

Sanjay Jain: Stronger with respect to the 375 kt CPC that we have done in the September quarter, but will it be lower than the second quarter number of 474 or like...?

N. Jagan Mohan Reddy: Yes, it is lower than the 474 because the ban is still continuing and the CPC that will be imported from the US because calciners are not permitted to import CPC, that means basically we cannot import any material unless we get clarification from the Supreme Court on importing CPC, we are not permitted to import CPC as of now, so which means our volumes will be down.

Sanjay Jain: Right, but aren't we trying to directly sell CPC to the customers where you may not have any restriction?

N. Jagan Mohan Reddy: Yes, but you know we are also working with that but that is a more time-consuming affair because the material what normally we get is not calcinable directly, we actually bring in kind of I would say little higher Sulphur and higher metal coke and then we bring in to blend in India. So basically, if we start selling direct material which is compliant with aluminum smelter requirement, the cost would go up. So, it would not be more profitable. Since we bring all the way and we blend it, we can bring in lower materials that actually doesn't need importation of GPC into the US. We actually make materials with whatever GPC that is available within the US. So that keeps our cost under control. So direct sales aluminum smelters is not very remunerative for us.

Sanjay Jain: I see, then we are going to see this impact lasting for a longer period than just one quarter, is that correct...?

N. Jagan Mohan Reddy: No, we hope to get a clarification because there are certain rules in the DGFT and we can bring it under advance authorization, we have certain benefits, we do expect hopefully that in this quarter we should get a resolution on that matter.

Sanjay Jain: Ok, Can I ask you one more question on pitch? You mentioned that there was low water level in Germany in the river which has affected shipment and you also talked about some customer issues because of

that the shipments got impacted. How recurring is this problem like is this behind us now or this is going to impact in the December quarter as well?

N. Jagan Mohan Reddy: Basically, the river Rhine which is the lifeline for all the inland shipping in Germany between ours and our customers is very low. So, we are able to only ship materials which is about say 50% of the barge capacity because of the very low level. Some of our customers cannot even take material but we are able to ship which means we are moving material through trucks and other alternative modes. We are trying every effort but I cannot guide you on the rivers or on the rains when they will fall in but hopefully there are rains actually in upwards basically in Switzerland and other places hopefully. But not only ours, it is impacting every large German company.

Sanjay Jain: Both volumes are impacted as well as cost has gone up, right?

N. Jagan Mohan Reddy: Yes.

Moderator: Thank you. We will take the next question from the line of Arvind Kothari from Niveshaay. Please go ahead.

Arvind Kothari: Wanted to ask on the aluminum side. The prices have crashed to around \$1950 and there are articles, almost 40% of the European capacity of aluminum might be cash negative. So, what are our views, are clients facing some problems with regarding to their cash losses and do we expect aluminum production to be impacted in the coming quarters maybe which impact our production as well in European facility?

Gerard Sweeney: It is a good question, thank you. We have seen a lot more negative press related to where the LME and SHFE have been. The discussion over the amount of aluminum capacity or the current production that maybe under water. The majority of that is in China and there is only smattering of production that are in high cost areas that really at current level maybe under water. They are fairly isolated. We are not greatly concerned. We have heard no conversation, we have heard no reports to this point, really any production coming off and certainly none of our current customers appear to be affected by this. We are watching the situation carefully though. This is a big unique. The fundamentals on

aluminum still remain very strong, production and demand estimates are still remaining strong and we seem to be in a time lacked area of weakness related to the reported industries. We do not necessarily expect that to last over the medium-term.

Arvind Kothari:

Ok. Thank you. Other question was as Jagan sir also mentioned that the costs are now catching up with our sales prices. Similar commentary was there in Koopers concall few days ago, that they also expect the pitch cost to go up in the coming quarters. So, I just wanted to get a sense of whether this is something which is a phenomenon of coming two, three quarters or this is something that we experience would be lasting impact? What would be the stable margins? So, we enjoy close to 22, 23% margins in our Carbon segment. So, what do we feel going forward should be margins that our company is targeting and how do we manage this raw material cost inflation?

Gerard Sweeney:

Well, we don't provide specific guidance moving forward. I don't mind commenting on that in industry terms. What happens with our business in particular our carbon business whether it is from the CPC or the coal tar pitch side, we do have a period of one to max usually two quarters of correction that happen when the finished product prices turn on us in order to work off our inventories and readjust them to current market situations and that's pretty much what we are in now and what we have been discussing is that the third quarter was affected by that related to shift in finished product prices where we are not able to match it in the immediate with lower raw material cost. However, as far as the market is concerned for raw materials, we are seeing the raw material cost adjust downward, consistent with where we have seen the finished product prices come off as well. So, we are comfortable with our ability as we always have to reset our cost consistently so that we can protect our margin. Now when I say that, remember, we have in particular in the CPC side of the business enjoyed higher margins over the last four quarters due to a rapidly rising sales price. We are not expecting consistent with our comments in the beginning of this call. We are not expecting to return to those opportunity margins, but we do think that we will be able to protect our standard margin in the industry and adjust our raw material cost consistent with the lowering finished product prices.

- Moderator:** Thank you. We will take the next question from the line of Tirath Muchhala from Elusividya Advisory. Please go ahead.
- Tirath Muchhala:** The first one is on the networking capital. At the end of calendar year '16, we had a networking capital up to \$228 million which is now up to \$430 million. So, my question is just that a significant chunk of our capital is in the working capital and I do not think we have seen commensurate that large increase in sales. So, do we foresee the networking capital to drop and to leave some cash for our operations?
- T. Srinivasa Rao:** \$400 million will be the typical capital that we will be having in the business going forward. There could be \$30 million reduction.
- Tirath Muchhala:** My question is that last about 18-20-months of almost \$200 million is incrementally stuck in inventory and receivables. So, is that relatively going to stay like you guided for \$400 million, but are we seeing \$400 million as a...?
- N. Jagan Mohan Reddy:** The raw material prices and finished products prices as compared to 2016 have almost increased by 60 to 70%. So as the value comes down basically the value of the net inventory capital net current assets will be coming down and inventory cost will come down. So actually, all the cash will be rerouted back to the operations basically to the cash flow. We are just hoping that once the prices do come down, that is an advantage in the business is when the prices are going up, your margins improve but the problem is it also consumes lot of working capital but when margins are coming down or basically when the prices are coming down a little bit, all the cash will come back into the system. So that is one of the good things about this business.
- Tirath Muchhala:** The CAPEX plan for CPC business, is that still on track or are we going to keep it on hold for some time?
- N. Jagan Mohan Reddy:** We are actually proceeding because we have all the approval for that including all the environmental and all the necessary approval, so we are actually proceeding with that, so we should be operational in Q3 2019.
- Tirath Muchhala:** One last thing is about coal tar supplies for our plants. Are there any problems with that or are supplies okay for us?

- N. Jagan Mohan Reddy:** We are fine with it. No issues with raw materials.
- Moderator:** Thank you. We will take the next question from the line of Aditya Wagle from Equitas Investment. Please go ahead.
- Aditya Wagle:** Sir, what is your plan for the German restructuring?
- N. Jagan Mohan Reddy:** We have a couple of plants that we decided to shut because they are not adding much to the margin. So, we have decided that we are going to shut off those units. So that will require some restructuring which means we have to shut off the operating facilities and also, we have to have some people restructuring also. So that is actually some additional cost that we indicated.
- Aditya Wagle:** How long will the facility be shut?
- N. Jagan Mohan Reddy:** We are closing it down permanently. It is going to be value accretive starting Q2 2019.
- Aditya Wagle:** We expect our volumes to come back to normal levels from like I would say 450,000 in CPC from Q1 onwards, is that a reasonable expectation?
- N. Jagan Mohan Reddy:** We do expect but not in this Q4 because while we expect things to improve but I do not think you were there earlier, yes, we do think maybe from Q1 onwards, but at this point of time it is hard to predict, but we still have to get some clarification from the Supreme Court and hopefully once we have that, then we should start improving on the volume.
- Aditya Wagle:** On CAPEX projects, are they on track or any further delays? When is the Visakhapatnam CAPEX coming on stream?
- T. Srinivasa Rao:** In third quarter of 2019 there will be two or three months of delay.
- Aditya Wagle:** Any plans about debt to bring it down a bit, anything on that front?
- T. Srinivasa Rao:** Yes, we do not expect to make any further borrowings.
- Moderator:** Thank you. We will take the next question from the line of Vaibhav Chaudhary from India Capital. Please go ahead.

- Vaibhav Chaudhary:** We had CAPEX plans of around 140 million. So how much is spent and how much is left to be spent?
- T. Srinivasa Rao:** We have spent around \$30 million till now, balance \$110 million we will be spent in next year.
- Vaibhav Chaudhary:** Second question is regarding the European facilities. Which facilities have been closed?
- T. Srinivasa Rao:** Two plants in Advanced Materials segment is what we are planning to shut down, partly in Q3 and some of them will be closed in Q4 of 2018.
- Vaibhav Chaudhary:** Sir, the reorganization cost for how many quarters is it going to continue?
- T. Srinivasa Rao:** This will be there in Q3 as well as Q4 similar amount we are expecting.
- Vaibhav Chaudhary:** Is it going to continue further in FY20 also or is it going to end in...?
- N. Jagan Mohan Reddy:** Hopefully not, basically we are hoping that we may take impact in Q4 or in Q1 but after that there should not be any impact on the restructuring.
- T. Srinivasa Rao:** This will also result in reduction of employees and certain severance pay, etc., we need to incur.
- Vaibhav Chaudhary:** Can you quantify these numbers?
- T. Srinivasa Rao:** This quarter we already told you, \$3 million.
- Vaibhav Chaudhary:** How much would be the savings then by reducing our employees?
- T. Srinivasa Rao:** Annual savings of about \$4 million from mid of 2019.
- Moderator:** Thank you. We will take the next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Sir, this \$140 million CAPEX what is the capacity expansion in carbon and chemicals?
- N. Jagan Mohan Reddy:** Basically, we are expanding 40,000 tons in hydrogenation plant, that is going to cost about \$65-70 million and then we have about \$65 million

shaft calcining facility being built at Vizag in India, it is 370,000 tons CPC plant with 15 MW cogeneration plant and then we have \$10 million for debottlenecking of distillation facility to enable us to process petrotar.

Pritesh Chheda: So net capacity expansion is 370,000 tons in CPC and some capacity addition in chemicals, that is how I put it?

N. Jagan Mohan Reddy: Yes, 40,000 tons in making hydrogenation for white water resins.

Pritesh Chheda: How much in chemicals, \$10 million distillation will add what capacity?

N. Jagan Mohan Reddy: That is about 60,000 tons.

Pritesh Chheda: You had 3 lakh tons capacity addition in chemicals. That had come one year or a couple of years back?

T. Srinivasa Rao: The Russian plant was operational since February 2016.

Pritesh Chheda: If you could help us with what would be the EBITDA per ton in chemicals and EBITDA per ton in carbon for Q3 and for nine months, ballpark number is okay?

T. Srinivasa Rao: It is there in the press release. You can see the operating profit as well as the tonnage you can calculate.

Moderator: Thank you. We will take the next question from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.

Sanjay Jain: The question is on Vizag facility. In this changed situation, should we put this project on hold and maybe once we get clarity on the regulatory environment and then maybe go ahead with this project?

T. Srinivasa Rao: Sanjay, all our CPC plants are rotary kilns, this particular plant is a vertical shafting, this produces a different grade of calciner petroleum coke which is needed by the customer. So, we are going ahead with the project. There is no going back and stopping of the project. There could be minor delay of two months or so in completing the project because of the pet coke ban and special economic zone will have certain privileges to import even prohibited or restricted items.

Sanjay Jain: What is the pricing trend in pitch?

- Gerard Sweeney:** From the pitch perspective, the pricing trend has been flat to weakening just as we have seen on the CPC side as well.
- Sanjay Jain:** Should we say that all the cost increase, whether it is on CPC or Coal Tar Pitch businesses are already in and do you expect some more cost to increase in subsequent quarters?
- Gerard Sweeney:** The inventory has been purchased and we are working off those inventories. The commentaries that we provided is that we will work off those inventories, the replacement values are in line with where we need our cost in order to protect our margin. We just need to work off those inventories.
- Moderator:** Thank you. We will take the next question from the line of Bhavesh C from IDBI Capital. Please go ahead.
- Bhavesh C:** After the Supreme Court fiasco that has happened, what about the customers that we were serving outside of India but in Asia, are you still able to export CPC out of India?
- N. Jagan Mohan Reddy:** Ya, exports to CPC has no restrictions. Provided we have capacity, there is no issue in exporting it.
- Bhavesh C:** Then is enough GPC available because the quantum of GPC, CPC more or less looks like has been fixed by Supreme Court based on domestic aluminum capacity, so do we have surplus and are we servicing them?
- N. Jagan Mohan Reddy:** 1.4 mt of GPC is permitted. Last year for example in 2017, the total imports of GPC were only about 1.35 mt of GPC into India. So, whatever that is there will be sufficient for meeting the requirements of all the Indian calciners whoever import. Where the issue is going to come in is, for example, in last year Rain imported about 250,000 tons of CPC, that is not permitted. So, we may have some issues in meeting the Indian age forth commitment. What we are doing is we are trying to redirect them to our US facilities to meet our export commitment. So, we still should be able to match that. So, once we do that, eventually will be fine.
- Bhavesh C:** My second question is on Chinese aluminum production. Year-to-date we have not seen any growth in the production in aluminum. So

whatever CPC capacities are available in China, are those directing towards exports and are we seeing surplus in CPC and hence margins are likely to be subdued?

Gerard Sweeney:

We have seen more volume this year and we reported the same thing during the second quarter that we are seeing more volumes of Chinese coke available for export and that is consistent with the lower aluminum production numbers that we have seen. We don't see them dumping product on the market as we have in the 2012-2016 period as far as the CPC prices. They are though responsible for the volumes they have been exporting or responsible for the pricing weakness that we have seen in particular in India as well. We have seen those prices however firm up. So, we are not too terribly concerned about continued drop in CPC prices out of China supported by strong GPC cost on them as well. They were responsible really for the price drops that we have seen. We are not seeing that trend to continue.

Moderator:

Thank you. We will take the next question from the line of Mitul Kalawadia from ICICI Prudential. Please go ahead.

Mitul Kalawadia:

Just one question on the inventory part. You talked about in the couple of questions before. Just to understand how long will it take for this inventory adjustment to happen – will it happen within the Q4 results itself or it will go on for more than one quarter? Second, on the adjustments that we will go through, how brutal it would be on for the margin for a one particular quarter because if I recollect it right, it has happened in the past also where one quarter would just disappear in terms of profit, it will go to zero because there was a sharp movement in the prices and it took one quarter for the margins to up, so are we seeing such kind of situation or it will be something similar in terms of margins that we saw in Q3?

N. Jagan Mohan Reddy:

Normally the inventory gets adjusted over a period of time, basically depending on how the prices move. But the prices are going up you will see that the CPC prices go up first and then GPC prices slowly follow. When they are coming down, the same thing happens is basically the CPC prices come down first and then GPC prices slowly follow. It takes time to stabilize. Once they stabilize, then you will actually see the benefits of the inventory reduction. So basically, which

means it could take anywhere 6-9-months for the inventory reduction to actually happen. On the second question, Gerry

Gerard Sweeney:

I understand what you are talking about. We are coming off such a nice high base here. We are not going to see any kind of huge impact. You reference zero. We never fall into really zero but we have had going back to first quarter of 16, we had a very low earnings quarter, is that what you are referencing, where we came off of strong high inventory position where prices drop precipitously. That is not the instance here. Even though we have a high base we have not come off remarkably in our finished products sales prices. So, we are not looking at anything like that; however, if you are looking at our last four quarters, you can see that were coming off. To reiterate what Jagan saying is we will work through this in the third and fourth quarter, clean out that more expensive inventory and be refreshed for the new year.

Mitul Kalawadia:

So that is good to hear. Secondly, in terms of overall industry capacity, are we seeing an over capacity, or it seems to be more or less balance again? What would be our plans from a three to four-year perspective... where do we see in terms of CAPEX, capacity additions or balance sheet deleveraging, how would the management like to see the company three or four years down the line?

Gerard Sweeney:

To deal with the first part of your question, from a capacity utilization where an oversupply situation, we are not seeing a rapid change. From CPC perspective, as I commented earlier on the question, we are seeing more availability out of China. So, we will be watching that. If China continues to cut aluminum production, exports from China could become an issue again; however, remember there is a lot of more instantaneous issues that we believe are creating some of the results that we are seeing, the sanctions, the tariffs and such, that are disrupting normal trade routes. We think that the industry will ultimately digest that and move past it. So, we are not too concerned. To address your second part of the question, we remain very much committed to the future demand of the aluminum industry and looking out four years. There is still very strong expectation that in today's cleaner, greener, lighter, faster world, aluminum will remain the light metal of choice. As long as that outlook remains, that macro trend remains, we want to maintain our leadership position in supplying the aluminum industry with the carbon needs and that is the reasoning behind you are seeing

the aggressive growth CAPEX plan that we have in place. The immediate things that are happening in the marketplace, we will continue to monitor, but there is nothing there that is fundamentally over the long-term saying that less aluminum demand and less aluminum production will be out there in the world for us to see and we want to maintain our position in doing that.

Moderator: Thank you. We will take the next question from the line of Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra: Sir, I wanted to know that there was a fall in CPC prices. What is the reason for that? How much production would be hampered due to blending facility not operating in the India plant also and in the US plant also?

N. Jagan Mohan Reddy: Basically, we are not operating from July 26th, 27th onwards, basically two kilns that were dedicated for India, we have not been operating our 1.5 kiln, you can say that. Maybe 100,000 tons between the second half 100,000 tons is impacted.

Gunjan Kabra: Ok, and Sir, what is the reason for the fall in revenue fall in prices of CPC

T. Srinivasa Rao: It's a market determined prices actually. The gap has been increasing for last two years or so and now they have started moderating.

Gunjan Kabra: Sir, in Engineered production, I have seen the prices of CTP has increased QoQ. So, what is the reason for the price decline in the engineered product division because it is CARBORES and PETRORES which is also a variant of CTP and which is highly priced in CTP. So, what is the reason for price decrease in that.

T. Srinivasa Rao: There is no major decline in the prices of CARBORES. It could be the change in the product mix because when we sell to different customer industry, different prices will be charged, but overall there is no major decline in the prices of CARBORES.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Jagan for his closing remarks.

N. Jagan Mohan Reddy:

Thank you. Many influences and changes that are taking shape in the global market place have affected our recent performance. However, we have every confidence that, in the medium run, we are well placed to compete effectively and drive the future of our industry.

Long-term aluminum demand remains bullish in today's lighter, greener, faster world. Our new product pipeline remains robust, and our global operations are positioned to fill the needs of industry going forward.

We will continue to manage our businesses and balance sheet aggressively, monitoring the markets to adapt quickly in order to capture opportunity. Thank you for joining the call today.

We look forward to speaking with you next quarter.

Moderator:

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