"Rain Industries Limited Q3 CY'19 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good evening and welcome to the Rain Industries Limited Earnings Conference Call for the Third Quarter of 2019. As a reminder, all participants' 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 operating by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I will now turn the call over to Mr. Ryan Tayman, Vice President, Global Treasury, Rain Industries. Thank you and over to you, sir.

Ryan Tayman: Thank you, Good Evening everyone. I welcome all the participants to the Third Quarter 2019 Earnings Conference Call of RAIN INDUSTRIES LIMITED. Speakers on today's call are Jagan Reddy Nellore, Vice Chairman 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.

Jagan Reddy Nellore: Thank you, Ryan. A very good evening to all. Turning to Slide 3 of the presentation, EBITDA in the third quarter improved to INR 4.72 billion – up from INR 4.51 billion in the previous quarter. This improvement is further evidence that we are achieving the progress we had anticipated about improving margins. The increase in the bottom line was the result of enhanced margins, which we believe can return to – and hold at -- historic norms since we have essentially flushed out the high-priced inventories that have been a drag on earnings for the past year.

On the Carbon side of our business, revenues for the segment decreased by 10.9% from the second quarter, primarily due to a decrease in carbon volumes, which includes the impact of the CPC import ban and GPC allocations in India. To help overcome the impact of the restrictions in India, we have developed a new material called Anhydrous Carbon Pellets or in short-form ACP that we believe can be used in India and that will offer some unique advantages to anode producers.

Going forward, our strategy is to grow our CPC sales volumes – as well as calcined version of our Anhydrous Carbon Pellets -- and we do anticipate future growth. That being said, we won't chase sales at the expense of profitability in what is currently a highly competitive market.

Despite the decrease in revenues, EBITDA for the Carbon segment increased sequentially by INR 879 million in the third quarter, due to improved margins. Having worked through most of our high-cost inventory, and with GPC prices falling, margin spreads are gradually expanding. However, pressure from weakness in the aluminum market has placed a ceiling on our top line, so margins will continue to reflect market conditions.

Our Carbon segment also benefitted from a slight uptick in coal tar pitch volumes. This includes a shipment to a non-traditional market. The resolution of the Russian sanctions has also provided a boost to coal tar pitch sales, restoring a market where we had a strong presence.

Turning to Advanced Materials, revenue for the segment decreased by 5.7% compared with the second quarter. This was primarily due to continued weakness in resins sales, stemming from sluggish global automotive market. Sales of our CARBORES specialty binder were also off in the quarter due to ongoing weakness in the steel industry and the downstream impact on steel suppliers in the graphite and refractory markets, which have been big consumers of our specialty binders. Offsetting these declines was an impressive quarter in engineered products, where revenues were up 21.8% sequentially. Of particular note was the performance of our environmentally friendly sealer-base products and PETRORES specialty coatings, which are used in lithium-ion batteries, energy storage and other specialty applications.

Petrochemical intermediates performance was basically flat, primarily reflecting the current BTX situation, where we are addressing quality issues in our supply chain.

Cement business revenue decreased by 20.1% compared with the second quarter. This was primarily due to a decrease in volumes and realizations in all markets due to monsoons. With the onset of a good monsoon season and all the major dams reaching their full reservoir capacities, we expect there will be bumper harvest throughout the markets that we serve in India, which should give strong impetus to the rural economy. This, combined with strong focus by the newly formed governments towards housing and pending irrigation projects, should result in strong demand for cement from the 4th Quarter 2019 onwards.

Finally, the cost of many of the raw materials we buy has been falling, which has resulted in reduced investment in receivables and inventory and, consequently, an increase in cash flowing back into the balance sheet. This is providing some of the resources being used to fund our capital investments, reducing our need to tap other funding sources for these important projects. In short, while earnings are down from a year ago, we have been able to maintain a steady cash position, and we are committed to the prudent use of capital as we position RAIN to meet the evolving requirements of our customers and society.

With this business update, I will now turn over the call to Gerry Sweeney to take you through industry and other business updates on Slide 4 … Gerry?

Gerard Sweeney: Thank you Jagan, and good evening everyone. It is a pleasure to speak with you all once again. On Slide 4, we are seeing weakness in the aluminum market with the LME price having fallen to recent lows. This is not surprising, as LME prices were bound to retreat with the restart of the largest North American smelter and the resumption of production by a Brazilian producer as well, coupled with reduced alumina costs following the resolution of Brazil's mining situation. Declining LME prices and the current oversupply of aluminum is widely expected to force the curtailment of some high-cost plants. We're already seeing shutdowns in Europe and among some older, smaller smelters in China. Conversely, cost-advantaged projects have moved forward, including an expansion in Bahrain (Middle East). The takeaway here is that we expect to see a rationalization of smelting capacity around the world as long as current conditions persist. In the Medium term -- perhaps as early as 2020 -- aluminum demand is expected to increase, according to some industry sources.

That being said, weak LME pricing does not necessarily lead to reduced demand for CPC or coal tar pitch. Macro-economic forces -- such as the rapid growth of electric vehicles and the replacement of plastic with more sustainable aluminum in beverage containers -- mean that the outlook for aluminum products, and therefore RAIN's products, is very good.

Similarly, the recent restart of the largest smelter in North America and the ramp up of three facilities in Russia should boost demand for pitch products.

Moving to slide 5, regarding our major capital projects, construction of our vertical-shaft calciner in India continues. However, to provide additional time to finish installation of an ACP plant in India that we referred to in our announcement on September 16, 2019 and to produce enough ACP to feed the shaft calciner, we are moving the commissioning and commercial operation of the new calciner to Q1 2020. At the same time, we are installing a second ACP plant at our Chalmette facility in Louisiana in the United States.

On August 15, we completed the first part of a phased commissioning of our new European hydrogenated hydrocarbon resins facility. Our plan is to begin commercial operation during early Q1 of next year. This plant will be the cornerstone of our Advanced Materials business, and it will position us to help satisfy increasing demand for water-white resins required for contaminant-free adhesives in food packaging and hygiene products such as disposable diapers. The plant will also supply advanced resins for adhesives used in technical applications, serving as the backbone of polymers in new high-strength glues. We see this as a big growth market for us and a potential game changer for resins.

Over the past few quarters, we have alluded to a number of global initiatives both in response to current market conditions and as a means to improve our competitiveness over the long term. Our focus includes: Plant conversion-cost productivity, Plant availability, downtime and utilization rates, Turnarounds and maintenance, Inventory management and production yields

- Functional SG&A management, and our asset footprint, including previously announced plans to close the Uithoorn resins facility next year.

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 third quarter of 2019, RAIN achieved consolidated net revenue of ₹29.78 billion compared to ₹34.71 billion in third quarter of 2018, a decrease of ₹4.93 billion or 14.2%. This resulted from a decrease in revenue of ₹3.52 billion, or 15.5% reduction, from our Carbon segment and ₹1.59 billion, or 16.3%, from our Advanced Materials business, offset by a ₹0.17 billion or 7.7% increase in revenue from our Cement segment. RAIN's consolidated adjusted EBITDA decreased by ₹0.79 billion compared to the prior year. This resulted from a decrease in the Carbon segment by ₹0.38 billion and in Advanced Materials by ₹0.61 billion, offset by an increase in our Cement segment by ₹0.20 billion.

Now turning to the next slide on Carbon segment performance … Revenue from our Carbon segment was ₹19.24 billion for the quarter ended September 30, 2019, as compared to ₹22.76 billion for the same period last year. During Q3 CY19, the average blended realisation decreased by ~14.1% due to changes in market trends, further affected by the unfavourable impact from depreciation of the Euro against Indian Rupee by ~3.9%, which is partially offset by appreciation of the US Dollar against the Indian Rupee by ~0.6%. The drop in CPC price was primarily driven by reduced prices in the Asian markets and price pressure in North America. Gross sales volumes in the Carbon segment decreased by 1.6% mainly due to a decrease in CPC volumes by 10.1% and Other Carbon products by 0.7%, offset by an increase in CTP volumes by 24.6%. Overall, due to lower volumes and a decrease in realisations, revenue from Carbon segment decreased by ~15.5% in Q3 CY19 as compared to Q3 CY18. The Carbon segment continued to be impacted by petcoke import restrictions in India, impacting the ability to compete with Asian markets and resulting in underutilization of our US calcination plants.

Turning to next slide on the performance of Advanced Materials … Revenue from our Advanced Materials segment was ₹ 8.18 billion for the quarter ended September 30, 2019, as compared to ₹ 9.76 billion for the same quarter in 2018, a decrease of ₹ 1.58 billion, or 16.3%. During Q3 CY19, sales volumes decreased in petrochemical intermediates by ~13.5% and resins by ~17.6%, offset by increased volumes in engineered products by ~3.0%. Naphthalene derivates remained unchanged. Volume decreases were primarily driven by the weakness in the European automotive, adhesive and North America construction industries coupled with a shortage of raw material. During Q3 CY19, the average blended realisation decreased by ~9.5% along with the unfavorable impact from the depreciation of the Euro against the Indian Rupee by ~3.9%. The decrease in the price of petrochemical intermediates was driven by a reduction in oil-related prices.

Moving to the next slide on Cement business … During the Third Quarter of CY19, there was a favorable trend in sales volumes, resulting in an increase of 4.5% in our Cement business. Most of our markets such as Telangana, Tamil Nadu, Karnataka, Maharashtra, Goa and Pondicherry had increased volumes, but these were partially offset by decreased volumes in Andhra Pradesh, Odisha, Kerala and other smaller markets. Sales realisations increased by ~3.1% during Q3 2019 as compared to Q3 2018. Due to these reasons, revenue from Cement business increased by ~7.7% and EBITDA from the segment increased by ₹0.20 billion.

So moving to the next slide #10 on the "Debt Position of the Group." At the end of the third quarter of 2019, our Total Debt was US$ 1,095 million which includes US$ 56 million of working capital debt. Capital expenditures of ₹8.09 billion (or ~US$ 115 million) was incurred during 2019 includes ₹3.59 billion (or ~US$ 51 million) spent on our two major expansion projects under construction, that is the HHCR Project in Germany and Vertical-Shaft Calciner in India, as well as expenditures incurred for other expansion projects.

Net cash used in financing activities of ₹5.12 billion during nine-months ended September 30, 2019 includes ₹1.13 billion of net outflows for the repayment of borrowings. The balance of ₹3.98 billion is used toward interest payments. The Company ended the quarter with a Net debt position of US$ 901 million and net leverage ratio of 4.1X based on LTM Q3 CY19 Adjusted EBITDA. Finally, finance costs during Q3 CY19 were ₹1.13 billion, approximately the same as in Q3 CY18. Although there was a reduction in working capital borrowing during the current quarter, the decrease in interest cost was offset by the increase in exchange rates. Our average, borrowing cost stood at 5.5%. We expect net interest expense to remain stable as the floating-rate portion of our long-term debt is tied to the EURIBOR, which is still negative.

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

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Ayush Jugani, individual investor. Please go ahead.

Ayush Jugani: What is the reason of fluctuation in Advanced Materials division? As I assume the high cost inventory is already vanished, then why the margins got impacted?

Gerard Sweeney: The Advanced Materials products do fluctuate with market conditions and we did see weakness in the pricing in our larger volume products in Advanced Materials. So, basically weaker liquid fuels market affects our pricing there. So, that was the major impact on pricing and margins in the Advanced Materials sector.

Ayush Jugani: Okay. So my second question is that the Carbon division has posted 18.7% margin. Are they sustainable? And for CPC specifically, as I see that it was strong due to the low GPC prices. So do you think it is sustainable or it was temporary?

Gerard Sweeney: We are really pleased on the Carbon segment is that in the third quarter after suffering from inventory overhang related to the disruption of the sale of our product, we really were able to reestablish our margins in the CPC business in particular. We were pleased with that. You are right, it is a function of reducing our raw material cost but this is sustainable. Given the weakness in aluminum, we will have to continue to protect that margin by creatively purchasing and using our raw materials, but we do believe it to be sustainable.

Moderator: Thank you. The next question is from the line of Darsh Sonam, individual investor. Please go ahead.

Darsh Sonam: This question is for Mr. Jagan. Mohnish Pabrai says that you are a great capital allocator. So since the stock is trading at 0.7x book value, is there any reason that you chose dividend rather than buyback?

Jagan Reddy Nellore: Share buyback is not very attractive for us. The reason is Rain Industries Limited is a holding company. So, any money that comes into the holding company through dividends from subsidiaries, actually, we have to pay dividend distribution tax and then declare dividend to Rain Industries, which can be set off only if it is again paid only as a dividend. If we do it as a buyback, then the problem is we will actually be subject to double taxation. So the preferred route is dividend.

T. Srinivasa Rao: Another issue is when you are declaring dividend, all shareholders will get the benefits, and when we do the buyback, only certain shareholders who want to surrender their shares, they alone will get benefit. So minimum dividend has to be maintained to benefit all the shareholders of the company.

Darsh Sonam: The second question I had was the basic process for manufacturing aluminum has been the same for so many decades. Do you see on the horizon maybe 10-years from now something better technology which does not use maybe GPC or CPC to take over?

Jagan Reddy Nellore: At this point of time, there is no new technology we are aware of. Only thing is there is something under R&D that is being developed by a group of aluminum companies to see if they can produce any Carbon-neutral material without calcined petroleum coke or green petroleum coke. But that is at least four to five years away, and we do not even know what will be the cost of production because several companies have been working on alternates for the last 15 to 20 years. So far there is nothing which is actually cost-effective that has come into forefront. And assuming even something comes even four - five years down the line which is actually environmental-friendly, basically all the new smelters that maybe set up will be using the technology. So, the existing smelters still will have to depend on Carbon. So, we think that calcined petroleum coke and coal tar pitch will sustain for at least two decades.

Moderator: Thank you. The next question is from the line of Rohith Potti from Marshmallow Capital. Please go ahead.

Rohith Potti: My first question is on the latest Supreme Court ruling. Could you explain as to where we stand and what is the next step ahead for us?

Jagan Reddy Nellore: Basically, the Supreme Court has given orders that the Ministry of Environment and Forest actually have to come up with what are the environmental standards they would like to see for the calciners and submit something within six months, so basically they have to submit something by March 15, 2020 to the Supreme Court and once Supreme Court approves that, then those standards will be actually prevalent for all the calciners. But from our perspective we are not concerned about that because we follow the highest environmental standards in the world, and we are probably one of the very few carbon-neutral calciners in the world. So, we are not concerned about the standards Ministry of Environment and Forest comes up with. But we do not know at this point of time what will be the standards. So, we are just waiting and seeing till March what will happen. Meanwhile, we are also using Indian raw materials to be able to meet our requirements.

Rohith Potti: Understood. The second question I have is if you could explain little more about Anhydrous Carbon Pellet? It is great to see the amount of de-risking that Rain does with petro tar and now with ACP. If you could talk about how this whole thing fits into the CPC category that we have, and is it as economically profitable for us as CPC is, and will it sort of ensure that irrespective of what the Supreme Court comes out with, we will maintain the full utilization of both these Indian facilities going forward? And also, if you could help us understand why we are setting up one in the US as well because I do not think there is any restriction there.

Jagan Reddy Nellore: Anhydrous Carbon Pellets will actually be made from refinery bottom and some organic Carbon binders. So, it is essentially a superior form of Carbon raw material for making anodes. Basically, that packs the material very well and it improves the overall density of the product, which is helpful in reduction of power consumption, and also, we can customize this product to any quality that is required. So, as we announced that we are setting up two projects; one project will actually be in Vizag in SEZ plant; and one in the U.S. In India, we will be making the ACP essentially from raw materials available within India where we can meet certain qualities, but we are only setting up a plant in India for 250,000 tons. Our overall requirement is about 450,000 tons of raw material. So, we will be importing about 200,000 tons from our plants in the US and 250,000 tons that we will be making in India. The reason is why we have split the plant between India and US is that let us assume that maybe one, two or three years down the line, there are change in the laws and where the ban is lifted, then at that point of time we want to be able to use this Anhydrous Carbon Pellets which we think will be a very important invention for making this prebaked anodes. We want to be able to produce them in the US and supply to customers there in the blend form, and we will be able to use Anhydrous Carbon Pellets here and then supply to the customers in this part of the region. So, that is why we split the plants within both India and USA. And from a cost perspective, we do think that this will be on par or actually more competitive than green petroleum coke.

Moderator: Thank you. The next question is from the line of Vikram Sharma from Meraki Wealth. Please go ahead.

Vikram Sharma: Sir, My first question is cash flow from operations in the first nine months were higher compared to normal cash flows. So what changes we made in our working capital strategy for a sustainable cash flow?

T. Srinivasa Rao: Actually, the improvement in the cash flow from operations is on account of reduction in the prices. Most of the products what we are dealing right now, whether coal tar pitch or calcined petroleum coke, you see a decline in the prices. Compared to last year, the decline in some of the products is 30% - 40%. So because of that, there is a release in the working capital from the inventories and receivables, and that is why you could see a higher cash inflow from operations.

Vikram Sharma: Ok. Sir, Euro has depreciated. So how it will affect our European business and what was the impact of this on our business?

T. Srinivasa Rao: Euro has depreciated, that is correct, but most of our revenues are generated from the local markets, like the revenues are generated in Euro and costs are also incurred in Euro, and if there are any exports that are happening from European countries to outside Europe, we will be selling mostly in US Dollars. So, we will get higher euros because of the depreciation of Euro against US Dollar. So, there is no impact to the business because of the Euro deprecation.

Vikram Sharma: My last question is CPC export from China has doubled in last two months only. So, what were the main factors behind that?

Jagan Reddy Nellore: Basically, because the imports of raw materials into India actually have reduced, which is contributing to reduced sales within India. We are also not able to export because of the tightness in the raw material availability for the Indian calciners. Because of that, there are more exports coming from China.

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

Arvind Kothari: Good evening sir, my first question is regarding our CAPEX. The original CAPEX in Vizag was designated at $60 million has gone up to some $98 million. So that is fine, we have made adjustments because of the new environmental norms. Also HHCR has gone from 70 to 93. So both the CAPEX has seen significant escalation. We understand that the products that we are making are also high margin. So, if you could give us a brief payback periods for both the projects and the kind of margins that we will be working at both the plants to justify the CAPEX increases?

Jagan Reddy Nellore: Basically in the increase in cost in Vizag is mainly on account of two reasons. One is for Flue Gas Desulfurization system, we normally use a lime-based system and for the disposal of the resultant spent lime in our existing plant, we sell it to the brick manufacturers, but we almost do not get anything because we actually give it out almost free of cost to the brick manufacturers. But when we decided to set up this SEZ plant, we decided to put up an ammonia-based scrubber which cost almost 3x the cost of regular lime scrubbing FGD. But the advantage is that when you use this liquid ammonia in the FGD, you actually get ammonium sulfate which is a fertilizer that can be used by the Indian farmers. There is a payback period for that, which is about 3.5years. So there is an advantage though there was a higher cost, we decided to actually put up ammonia scrubber, which we believe is the first of its kind in India. So, this helps us make a product that can be used by the Indian farmers. And second is, now we are setting up an ACP plant in the SEZ location. That also should be quite good for us because we are actually going to be consuming raw materials which otherwise cannot be used for calcination and actually making a very useful product out of that. So, that should make us very competitive, and not only that, it will make a product that will be very useful for the aluminum smelters. And based on this, we expect our payback period to remain almost the same that was originally contemplated. We think it might be somewhere about four years. Similarly, the HHCR plant, though there has been an increase in the cost, with our R&D we have actually improved the quality of the product that will be coming out and probably it is one of the cleanest, most whitest white-water resin products. And also, our team has been able to reduce the cost of production. So, with that, again, the payback period should be somewhere about 4.5 to 5 years. This was what is originally expected. So, the increase in cost should not overall impact us much.

Arvind Kothari: So this HHCR, what kind of margins we would be working and any sales guidance for next year full capacity if you could give?

Jagan Reddy Nellore: We do not give forecast, and second thing is that HHCR margin should be on par with our competitors, which you see our competitors are basically Eastman and Arakawa and others. So, you can check that, but we cannot give you any particular detail at this point of time.

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

Bhavesh Chauhan: Sir, can you please explain a bit more on why Advanced Material margins fell? I understand that it was mainly because of the business and industry and end consumer market not doing well. But having said that, are we seeing recovery or how should we look at it going forward?

T. Srinivasa Rao: Actually, if you see the margins in the Advanced Materials business, there is a decline in the margins. One is we are shutting down our facility in Netherlands, and we are also reducing certain products which are not remunerative to us. So, because of all these reasons, you see a lower margin in the Advanced Materials business segment. It is also coupled with the slowdown in the automobile industry in Europe as well as the construction industry in the North America. Some of our resins, super plasticizers are used in the construction industry. Because of the negative growth in the automobile industry in Europe as well as the construction in North America, you see a decline in the volumes as well as operating margins. But we see that once the HHCR project is operational by early 2020, there will be improvement in the operating margins. Also, we will be focusing only on the products that are more remunerative, because of that we expect better operating margins in the Advanced Materials business in next year in 2020.

Bhavesh Chauhan: For the CPC business in India, we have developed a new material. So should we expect the volumes to be higher from current levels? What happened in this quarter? Should CPC volumes also recover?

Jagan Reddy Nellore: Yes, we should expect, hopefully now with the start-up of the shaft calciner is expected in the first quarter, and we do expect to see improvement in the sales volume of CPC starting next year.

Bhavesh Chauhan: Okay. And any particular level of margins that we feel? I mean are the current margins sustainable, or can we have a little bit variations here and there?

Jagan Reddy Nellore: In terms of percentage I think these margins can be sustainable or do better actually; in terms of percentage.

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

Parvesh Gupta: My first question is on the new product that we are trying to develop, how confident is that you will be able to commercialize the same? And what will be the margin profile of this product compared to what we were normally selling?

Jagan Reddy Nellore: Basically, ACP has been under development from 2011 onwards, this is not a new product for us, and we have done extensive testing on the same. And once we actually have more quantities available, there are several customers looking for this material. But during the initial stages, we will be selling it as a blend component with the CPC, so where the ACP may not be more than 20% - 25% of the overall volumes. So, there should be no other impact but it will only improve. And hopefully, once this is stabilized and once the customers are more comfortable using it, then actually we may start selling that material on individual basis. Similarly, on HHCR, we think whatever we are going to produce will be probably one of the highest quality products that will be in the market today. Lot of customers are already reaching out for this product, and hopefully, that should actually develop into good commercial sales going forward. We already have a pilot plant, and actually we are producing samples and giving out to customers. So, the customers do know the quality of the product that will be coming up.

Parvesh Gupta: Basically, what you are saying that there is no risk in terms of product acceptance as such and this is only a matter of time before you are able to produce it on larger scale once the new plant comes up?

Jagan Reddy Nellore: No, I do not think there is a risk, I would say the only thing is acceptance; the customers may take about three months to accept that the product. Beyond that, we do not see it as a concern because as we have said, the ACP product has been in development from 2011 and lot of customers already know this product. And the HHCR is basically a product, which has already been used for the last several years by various customers produced by other producers. We think our quality will be better. So, we are not too much concerned about the acceptability of either of these products.

T. Srinivasa Rao: In fact both these products have been developed based on the customers' requirements, and we have been working closely with the customers to understand what kind of material they require, etc., so we do not see any risk in marketing those products.

Parvesh Gupta: In terms of our growth strategy, of course, we are undertaking these two CAPEX programs. Other than that, are there any other growth strategies for the Company other than the two CAPEX projects which are going on?

Jagan Reddy Nellore: At this time, we are not looking at any additional new CAPEX projects… there are no projects in pipeline at this time.

Moderator: Thank you. The next question is from the line of Akhilesh Kumar from Adpro Technologies. Please go ahead.

Akhilesh Kumar: The Germany plant for HHCR is getting every quarter delayed. And now we are moving from end of Q3 to early Q1. Is there any bottle-neck we are facing there? Or there is something other issue there? The reason for delay in commissioning of HHCR plant in Germany?

Jagan Reddy Nellore: Because there was so much demand for the product and basically the equipment was delayed and there were some other issues related to the construction from the contractor side, mainly because of those reasons it got delayed. So…

Akhilesh Kumar: We should be confident of starting in early Q1, right?

Jagan Reddy Nellore: Yes, yes, actually, very early Q1 we should be in operations. The hydrogen plant that is already required is already being commissioned and actually we are able to produce hydrogen material. The only thing is we are waiting for the resins part to be completed.

Akhilesh Kumar: And in Vizag plant, this ACP plant will be separate than the vertical shaft CPC plant?

T. Srinivasa Rao: No, ACP plant also will be located in the same place… the special economic zone, where our vertical shaft plant is being constructed. So it is not a new location.

Akhilesh Kumar: So it will use CPC produced from our vertical shaft or it will be additional capacity with us, that 2.45?

T. Srinivasa Rao: The output of the ACP plant will be used as a raw material for our vertical-shaft kiln.

Akhilesh Kumar: Okay got it. One more doubt I have is we are assuming that we will be procuring most of the raw materials for our Vizag plant from India within. But what I believe is most of the GPC producers are in Bihar or Assam and they have the rules to sell it only to locally situated plants. How we want to overcome this?

Jagan Reddy Nellore: The materials we will be using are refinery bottoms that will be coming from other parts of Indian refineries. That is the reason the advantage of ACP plant is, we do not need to depend on the anode grade coke that is being produced in India. We can use other alternate raw materials. So, that is one of the benefits of the ACP plant.

Akhilesh Kumar: And the same way we can run the Vizag plant and vertical shaft as well, right?

Jagan Reddy Nellore: Vizag, the existing plant already has sufficient allocation of GPC by DGFT. There is some shortfall, but we are able to overcome that with buying raw materials within India.

Akhilesh Kumar: And one last thing - long time we forgot about that because we are running so much CAPEX and all, but do we still have in mind that if we want to list it our Rain Carbon in US?

Jagan Reddy Nellore: Our main target now is basically bringing down the debt-to-EBITDA level and our target is to bring down the debt-to-EBITDA to below three by end of next year. So that is our main target and we will be working towards that goal.

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

H R Gala: As we have been discussing it is very nice to see some sequential improvement in Carbon performance and now my question pertains to can you just tell us now what exactly will be the CAPEX number at the vertical shaft Vizag and the HHCR plant?

Jagan Reddy Nellore: See, we think that the vertical shaft, including the ACP plant, we expect it to be $90 million and also the HHCR plant should be $90 million, each will be $90 million.

H R Gala: So, $90 million will include the ACP also at Vizag?

Jagan Reddy Nellore: Yes, that is correct.

H R Gala: That is about $15 million more than what you have planned?

Jagan Reddy Nellore: Yes.

H R Gala: So, my second question pertains to apart from this CAPEX requirement, what will be the normal routine CAPEX that we may have to incur?

Jagan Reddy Nellore: There are two kinds of CAPEX -- one is discretionary, other is non-discretionary and maintenance CAPEX. So the non-discretionary maintenance CAPEX we expect it to be about $70 million (+/-$5) million per annum.

H R Gala: In addition, we will have this $27 million of two projects, right…? $15 million plus $12 million? ACP project?

Jagan Reddy Nellore: Basically these projects will come into operations in early part of next year. So thereafter I think the CAPEX is what will be maintenance.

H R Gala: So normally $70 million is what we should consider for the cash flow projections purpose? Okay. Now sir, how close we will be getting to about $70 to $80 EBITDA margin in Carbon product, especially CPC. That is what we had guided in the last con call that this is what you are aiming to?

Jagan Reddy Nellore: Yes. If you just see the last five quarters of performance, what has happened is, the CPC prices were falling so were GPC prices. But what is happening is by the time the CPC prices fall and the GPC prices also fall and with the inventory consumed and basically the margin was actually getting eroded, but finally, we have reached a stage where I think the CPC prices and the GPC prices are leveling. So, hopefully, I think we should return back to our normal margins going forward.

H R Gala: Now the last question is - do we have all the environmental and other approvals to manufacture this ACP and use at Vizag or can there be any other issues?

Jagan Reddy Nellore: Yes, we have all the approvals.

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

Parvesh Gupta: So my first question is how soon can we achieve 100% utilization in our India business with the new ACP plant?

T. Srinivasa Rao: Our rotary kiln, existing CPC plant is always operating at 100% capacity utilization. The vertical shaft kiln plant may operate at 70% - 80% when it is operational.

Parvesh Gupta: So 80% is the maximum utilization that one can...?

Jagan Reddy Nellore: No, we can go to 100%, that is not a problem. Basically, as Srinivas said, the existing plant, though we have lesser allocation we are procuring raw materials within India and able to actually operate the plant at full capacity, and the new plant also is basically based on the raw materials that are procured in India and also with the ACP that maybe imported or that will be actually produced within India.. But the ramp-up will take some time because the first year in 2020, we expect to reach about 70% - 80% capacity, thereafter to 100% capacity.

Parvesh Gupta: Understood. And if you can guide me for similar thing for the new European plant?

Jagan Reddy Nellore: That will actually increase in increments of maybe next year. We are targeting about 50% capacity utilization and then probably 70% and then 90%.

Parvesh Gupta: The other one was on your cash flow from operations. So I think these nine months was better because of some working capital release. But going forward do you see any major changes in your working capital cycle or is it going to be stable?

T. Srinivasa Rao: Because the prices of our raw materials as well as finished products will be changing or fluctuating with market conditions, so net-net, we are not incurring any loss in any of the businesses. All are profit contributing or cash generating assets only. But the working capital changes, it is difficult to predict, but our cash conversion cycle will always remain in the range of 60 days to 75 days.

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

Gunjan Kabra: My question was on the new CPC plant. So, there is a huge expansion coming up in the Middle East also of around 1.75 million capacity of CPC and this new plant would also be catering to port markets only. So, how do you think the capacity utilization would pan out? Are there any new aluminum smelters coming up in the Middle East or what is the capacity that is still needed globally for CPC?

T. Srinivasa Rao: The CPC expansion in Middle East what you are saying is not so high like what you mentioned just now. But, we do not expect that there will be any impact to our capacity utilization in spite of this new calciner coming in Middle East because the worldwide production of aluminum is expected to increase on a 65 million tons to 70 million tons capacity, even if there is 2% to 3% increase is there year-on-year, there will be incremental aluminum production and incremental demand for both CPC and CTP.

Gunjan Kabra: Second question was on the raw material for CPC that is ACP. So unlike when we make CPC, it was directly made from GPC. Now with one more production process added, do you think still the prices would be very-very competitive and the raw material dynamics for ACP would be similar to the raw material dynamics of CPC?

Jagan Reddy Nellore: Basically, as I said, we do use Refinery-bottoms as raw-materials for the production of ACP along with some organic materials that is actually produced, taken from farmers in India, so that is the main raw material. But, yes, the dynamics should be much better for the ACP product or CCP, Calcined Carbon Pellets, which are produced from the ACP because it is much superior quality because it is custom made, they are actually engineered products. Basically, it is addressing the concerns of the customers. They have issues with the density and other quality issues. So, this ACP addresses all those concerns.

Moderator: Thank you. The next question is from the line of Akhilesh Kumar from Adpro Technologies. Please go ahead.

Akhilesh Kumar: I want to know the product. It is regarding so many smaller calciners we have in our country. Would they be able to sustain if the Supreme Court forces them to install FGD? What was the expenditure we incurred on Vizag FGD, may I know?

Jagan Reddy Nellore: We cannot comment on the other calciners, but from our side, we can say that, for example, our existing plant, we do spend about Rs.25 crores per annum on the FGD. Whereas the lime-based technology is an older technology, the technology what we are going to be using now in our SEZ plant is ammonia sulfate production as a bye-product. Basically, that has a payback period, as we said, about 3.5 to 4 years because we make fertilizer in that. So, it depends on what is the technology they will actually adopt and how will they produce. And based on their capacity, they will have to decide and we cannot comment on the competitor space.

Akhilesh Kumar: We are open to acquiring any Indian calciners as...?

Jagan Reddy Nellore: We cannot comment on that actually. It is not appropriate for us to be talking on that please.

Moderator: Thank you. Well, ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to Mr. Jagan Reddy Nellore for closing comments. Over to you, sir.

Jagan Reddy Nellore: Thank you, operator. As we discussed earlier, our businesses continued to make positive progress in returning our earnings to historically normal levels. While we are still waiting for CPC prices to bottom out, reduced raw material prices and the fact that we have exhausted our high-cost GPC inventory are having a decidedly positive impact on our margins. Similarly, we are seeing increased demand for coal tar pitch, and we believe the continued rise of aluminum as the "metal of choice" for a growing number of applications will have a positive impact on CPC and CTP volumes in the quarters ahead. Just as important, anticipated infrastructure development in India should result in increased demand for cement. When you couple all of that with the continued growth of the electric vehicle market – and the resulting need for our PETRORES specialty coatings – I am confident we will see strong demand for a number of our existing products. Even more exciting are the opportunities ahead of us. We are months away from commercial sales of our NOVARES pure "water-white" resins, and our value-added Anhydrous Carbon Pellets could be a real differentiator for us – both in terms of market niche and our ability to supply our new shaft calciner. At the risk of appearing starry-eyed about our future, I want to assure you that we are well-grounded and very conservative in how we are running our existing business and pursuing future opportunities. We are carefully managing our spending and we are determined to eliminate expenses that don't add significant value for our company, customers and shareholders. Moreover, we've demonstrated a willingness to walk away from unprofitable business and close unprofitable operations. With the improved performance, our target is to reduce the leverage of Net Debt to EBITDA to below 3X by end of 2020. The bottom line is that, while we are optimistic about our future, the management team and our employees around the world are acutely focused on returning our businesses to the levels of performance and profitability that originally prompted you to invest in RAIN.

Thank you for joining us on today's call, and we look forward to speaking with you again in February.

Moderator: Thank you very much. On behalf of Rain Industries Limited, we conclude today's conference. Thank you all for joining. You may disconnect your lines now.