

**Q3-CY17 Post Results Earnings Conference Call Transcript  
November 8, 2017 @ 17:30 Hrs (IST)**

**MANAGEMENT:**

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Mr. T. Srinivasa Rao -- Chief Financial Officer, RAIN INDUSTRIES LIMITED  
Mr. Gerard Sweeney -- President, RAIN CARBON INC  
Mr. Ryan Tayman -- Vice President, Investor Relations, RAIN GROUP

**PARTICIPANTS IN Q&A SESSION:**

Mr. Naresh Katariya - MoneyCurves Investments  
Mr. Pavan Ahluwalia - Laburnum Capital  
Mr. Sanjay Jain - Motilal Oswal  
Mr. Gunjan Kabra – Niveshaay  
Mr. HR Gala - Finvest Advisor  
Mr. Bhavesh Chauhan - IDBI Capital  
Mr. Ghanshyan Binani - EMC Limited  
Mr. Sanjay Nandi - Ratnabali Capital  
Mr. Sanjay Satpathy - Ampersand Capital  
Mr. Dharmesh Rashthe - BMA Wealth Creators Limited  
Mr. Sudheer Mahajan - Spartan Investments  
Mr. Kalpesh Gothi - Veda Investments  
Mr. Saumil Mehta - BNP Paribas Mutual Fund  
Mr. Kunal Banerjee – Brigade Capital  
Mr. Aditya Wagde – Aequitas  
Mr. KR Reddy - Mergers India Info  
Mr. Akhilesh Kumar – Individual Investor  
Mr. Himanshu Shukla - Individual Investor  
Mr. Raghu Garmilla - Individual Investor  
Mr. Jimesh Sanghvi - Principal Mutual Fund  
Mr. Sarvesh Shenai - Individual investor

- Moderator:** Good evening and welcome to RAIN INDUSTRIES LIMITED Q3 FY 17 earnings conference call. I will now turn the call over to Ryan Tayman, Vice-president, Investor Relations, RAIN!
- Ryan Tayman:** Thank you, Good Evening everyone. I welcome all the participants to the Third Quarter 2017 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](http://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 the performance of the RAIN Group in the third quarter of 2017, over to you Jagan.
- N. Jagan Mohan Reddy:** Thank you, Ryan. A very good evening to all the participants. RAIN is pleased with the improved performance during the Third Quarter of 2017 compared to the Third Quarter of 2016 related to enhanced capacity utilization of the carbon business. While the cement business was stable, the performance of the chemical business was weaker in this Quarter. In the Third Quarter of 2017, RAIN achieved Consolidated Revenue of ₹30.39 Billion; Consolidated Adjusted EBITDA of ₹6.81 Billion; and Consolidated Net Profit of ₹2.46 Billion. In spite of the unfavorable foreign exchange impact due to the US Dollar depreciating against the Rupee the performance improved in the Third Quarter of 2017. We continue to benefit from our strategic initiatives aimed to de-risk and de-commoditize our businesses over the last few years. In addition, the functional integration of our global teams enabled us to optimize raw material management, drive cost reductions, and increase capacity utilization to capture value in the improved market conditions.
- Moving to slide 4, as discussed last quarter, the Company completed 6 key capital projects in the last two years and these projects continue to operate as planned and are contributing to our improved performance. We continue to evaluate bottlenecks at our existing production facilities in order to expand capacity utilization. This allows the Company to maximize our performance with minimal investment as was done at our Distillation Plant in Hamilton, Canada. With just under \$2 Million of capex investment, we were able to push the production to its rated capacity. Each of these projects are contributing to the Company's sustainable performance with year over year improvements.
- Now Gerry Sweeney will take you through the industry developments on the next slide, Gerry....
- Gerard M Sweeney:** Thank you Jagan and good evening everyone it is a pleasure to speak with you all again. Moving to Slide 5; in the upper left bar chart as discussed in prior quarters, Aluminum demand is expected to grow at 5.2% YOY in 2017 with a Cumulated Average Growth Rate of about 3.4% over the five year period from 2016-21. Likewise, Aluminum production worldwide is expected to continue to expand

over the period to meet this demand growth. Some of these additional productions will likely come from western restarts, while the remainder will come from new projects. This is attributable to the Chinese building new capacities and then taking out smaller, less efficient capacities. These future Chinese closures are not traditionally considered in the forward production projections. Also not represented in this bar chart are the announced winter curtailments in China for this year, as well as the future years. It is impossible at this time to clearly define the exact amount of impact these curtailments will have in the future, but we will be watching closely as we see the first year of implementations occurring now. I have just returned from China, and even locally there is little knowledge on the extent of curtailments except the belief that the central government is serious about controlling pollution in large cities.

On the upper right, we see the continued positive movement in the LME Aluminum price, trending above \$2,000 a ton. Perhaps most bullish on this graph, is the steady decline in LME inventory levels which has supported the upward trajectory of Aluminum prices over the long term. The September inventory numbers reflect that only one week of available aluminum demand is stored in global LME warehouses. The lower LME Inventories and higher Aluminum prices, coupled with expected environmental regulations impacting Smelting Costs for Chinese Aluminum smelters this winter, has led to bullish discussion among western Aluminum majors to re-start idle Smelters in North America and Europe. On the lower left, Fuel Oil prices in the Third Quarter 2017 improved slightly maintaining their strong gains over the last year. Fuel Oil prices have increased by 27% compared to Third Quarter 2016. Commodities such as Benzene and Ortho-Xylene have followed a similar increasing price trend which has a positive effect on our "Other Carbons Products" revenues and earnings, especially our BTX and Carbon Black products.

On slide 6, Asian Primary Aluminum Demand is up 14% in the most recent industry updates. It will be interesting to watch developments this winter from the initiatives that were taken for environmental protection by the regulators such as the National Development and Reform Commission (NDRC) and Ministry of Environmental Protection (MEP), which will impact smelting and calcination capacities within China. The overall consensus is that reforms will hit CPC producers more directly than smelters because of the ability to have stockpiled anodes, and even to buy them in from other regions within China. One clear trend on the upper right of the slide, is the slowing of exports of CPC from China this year, which has driven volumes at our Indian calciner and the region in general. In North America, the strong trend on aluminum prices, as well as continued drop in LME inventories, is fueling the announced restart of Alcoa's Warrick smelter in Indiana, and Century Aluminium is actively exploring restarting a Potline at its Mt. Holly, South Carolina facility.

On slide 7 you will see Q3 Sales volumes in the carbon segment increased significantly YOY related to market demand as discussed on the previous slides. CPC sales volumes increased by 32% due to full utilization of our India blend strategy, coupled with our SO<sub>2</sub> scrubber investments over the last few years, which contributed to a significant increase in capacity utilizations in the US calcination facilities. The CTP and Other Carbon Products volumes improved by 11% and 16% respectively, due

to the ramp up at our Russian CTP plant Severtar, Carbores 3, and contributions from our other new projects which increased production throughput. Revenue from the carbon business in Third Quarter 2017 is ₹ 23.8 Billion which is 45.1% higher than corresponding quarter of the prior year. This is a result of increased realizations across all product categories, coupled with improved volumes in CPC, CTP and Other Carbon Products as well YOY. The Carbon business generated an EBITDA of ₹ 6.3 Billion during Third Quarter 2017. This was achieved through the investments in our high-quality product lines and our aggressive cost cutting initiatives over the last year.

Turning to slide 8, the Chemical segment volumes were basically flat for the quarter but slightly improved revenues due to product mix related to moving away from traded products YOY. In total, Chemicals had revenues of ₹ 4.42 billion in the Third Quarter 2017, 9.7% higher than corresponding quarter of the prior year and operating profit is ₹ 0.13 Billion. The performance of the Chemicals Business was impacted by a few exceptional items during Q3 including a small fire incident at our Uithoorn, Netherlands facility impacting production and a prolonged outage of Anthracene/Carbazol production in Germany. This concludes the performance update on the Carbon and Chemicals segments and I will hand the call back to Jagan to address Cement business performance on slide 9.

**N. Jagan Mohan Reddy:** Thanks Gerry. During Q3 CY17, there is 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, Kerala, Goa and decrease in volumes in other markets such as Karnataka, Odisha, Maharashtra and Pondicherry. Overall Sales volumes increased by 4.8% and sales realizations decreased by 13.6%. The revenue from Cement business during Third Quarter 2017 was ₹ 2.19 Billion which is 9.5% lower compared to corresponding quarter of the prior year and Adjusted EBITDA was ₹ 0.27 Billion which is 59.2% higher compared to the corresponding quarter of the prior year mainly due to the decrease in cost of inputs and increased sales volumes. 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 facility which is enabling the plant to produce approximately 7MW of electricity from the waste gases generated in the manufacturing process. All the electricity generated by this unit is consumed at the plant itself. Further, we have made Cooler upgradation in our Nalgonda Plant at a cost of ₹ 156 million to achieve energy efficiency. On a positive note, we have seen increased market demand compared to the previous quarter and anticipate this demand continuing throughout the year due to infrastructure and housing projects. Now I would ask Srinivas to update you on the financial position of the Company, Srinivas:

**T. Srinivas Rao:** Thank you, Sir. A warm welcome to all the participants. Turning to slide 10, I would like to update you on the debt position of the Company. At the end of the Third Quarter of 2017, the Gross Debt is \$1,155 million including \$55 million of working capital debt. Due to the appreciation of the Euro against the USD, there is an increase in gross debt due to restatement of Euro denominated debt compared to year end 2016. Further, due to the additional working capital requirements driven by the increase in sales volumes and quotations of raw materials, the short term working capital borrowings

increased to \$55 million, an increase of \$29 million compared to prior year. The net working capital has increased from US\$ 225 million as at December 31, 2016 to US\$ 323 million as at September 30, 2017. Due to the partial refinancing executed in March of 2017, the average interest rate is favorable compared to prior year. The results of the refinancing were positive in that we extended the first maturity date from December 2018 until January 2021 providing the Company ample time to continue exploring options for refinancing the remaining debt at an optimal price and extend maturity further. The Company ended the Quarter with a Net debt position of US\$ 976 million which is a slight increase compared to net debt as on December 2016; primarily related to the unfavorable Euro vs USD conversion rate and incurring of debt refinancing costs. With US\$ 159 million of cash on the balance sheet and unused credit limits of US\$ 100 million; the Company is comfortably placed to meet its obligations and continue to make the required investments to meet market demands. Thank you and I will now turn the call over to the operator for the questions and answer session, over to you operator.

**Moderator:** Thank you very much. Ladies and gentleman we will now begin the questions-and-answer session. The first question is from the line of Naresh Katariya from MoneyCurves Investments. Please go ahead.

**Naresh Katariya:** Hi Sir. Congratulations. My question is on the broad cycle. One of the slides explained the aluminum cycle and I also believe we are in a secular growth cycle in aluminum. My question is how does it play for us if aluminum does well for the next five-ten years would carbon do well necessarily and how are the demand supply dynamics? I mean I do not see too many calciners or CTP plants coming worldwide so just wanted some color on how does carbon cycle play in tandem with the aluminum cycle?

**Gerard M Sweeney:** Yeah, I think it is a good question. Thank you. When you say this aluminum does well for the next five-four plus years, realistically you would look at that and say if it has a reasonably robust price during the next five year cycle and increased demand during that time that would be a positive cycle for aluminum and that would be a positive cycle for carbon to feed aluminum as well. You know, with the weaker market that we came through in the last five years we saw lot of rationalization of both calcining as well as distillation assets over that time and so we would expect that would be anything that is bullish for aluminum production long-term even without regard to price is a positive and carbon consumption is therefore a positive for us given we produce the two main carbon inputs to the aluminum industry.

**Naresh Katariya:** Thank you Sir. And my second question was on a question follow up on what was discussed on the AGM so there some discussion on logistics that what I understood that logistics is a very high cost for us and we are working to improve our efficiency on logistics so is that already come into play? Can you give us some color on what has happened? Is that contributed partly to the better results we are seeing and how is that expected to benefit us in future?

- Gerard M Sweeney:** Yeah, from the logistics angle, we have already seen an improvement in our logistics and by improvement to the specific, I mean rationalization in our cost when we refer to our cost cutting initiatives, logistics is a big part of that as well, but to tell you the truth from that perspective well we made good initial move from the logistics perspective, which have been some low hanging fruit for us and some good cost savings. We still feel that we are very much at the tip of the iceberg and what we can continue to do as the company to rationalize our logistics cost and drive better economics you know, globally for our logistics network.
- Naresh Katariya:** So what could it be? Could it add some 0.5%, 1% or to shave off from our cost or any color on what exactly could happen because we ship a lot of it, lot of the CPC comes from US to India and some of the CTP moves worldwide what could realistically happen maybe can it add to?
- N. Jagan Mohan Reddy:** We are expecting that at least the same should be at least about 5%. So in overall logistics cost we expect at least save of 5% of the cost and I think this year we should get to that number.
- Moderator:** Thank you. We have the next question we have from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.
- Pavan Ahluwalia:** Yeah, my question is if we look at what is happening on the carbon product side, our margins on the carbon product are considerably higher than they have been historically. You previously guided to \$80 to \$100 normalized margins in the CPC side, we have not had a specific conversation about the CTP side but the overall carbon product per ton margin is a lot higher on that. My question is, is this sort of a new normal while you expect these margins to be able to sustain? Should we expect some reversion to the top of the range to which you would earlier guided which would be your \$100 ton and what are the factors that we should see if you do believe it will new normal what are the factors that we should be watching out for that may call this new normal the breakdown and see at revert to be in historic range?
- Gerard M Sweeney:** We are clearly seeing a better margin from the product cycle essentially the stronger demand is driving better margins; however, when you refer to our comments and our focus we repeatedly stated that we have been able to achieve a new normal in essentially our business through cost rationalization and the new projects that we have executed to add better opportunities for us in our overall systems, be it CPC or Coal Tar Pitch and so with that said at this point, we have not necessarily feeling that we see recessions from our earnings opportunity; however, we do think that what we have been able to do in over the last two years with the projects that we have executed is essentially provides better margin opportunity which is the \$100 which you refer to that we have discussed on prior calls in targeting a higher normal margin plus on our products because of the opportunity of the markets is always be there and if we fall back to more traditional margin level, we feel that we are establishing a new normal for ourselves what is that unique margin can be in our businesses.

- Pavan Ahluwalia:** What will be the factors to fall by what should be we watching for that with post the margin back we would just customer pressure or is it the competitors being able to work out a similar cost structure what would be?
- Gerard M Sweeney:** Yes I think it is another good follow up. Realistically if you look at what the market situation has come up before as you see a down cycle from the aluminum side, we see less demand for carbon product then you have more competition for your customer base with cost offerings and such the natural cycle you would see with any product is really the signs of what is happening. As long as we are seeing a growth in demand for the carbon products meaning an increase in the production of aluminum worldwide then we will see an increased demand for our products and that will continue to be bullish for us moving forward. Here it cannot go back than what we stated but the rationalizations that we had in the industry over the last five years have gone a long way and the barriers to entry still exist that it will not be easy to necessarily ramp up production on the carbon side in order to delude a positive market situation.
- Moderator:** Thank you. We have the next question from the line of Sanjay Jain from Motilal Oswal. Please go ahead.
- Sanjay Jain:** Just wanted to get sense on this very strong performance on the carbon division so we have seen volume at 475Kt is this like on an annualized basis now what is the kind of volume we should be expecting because last year it was 1.64 million tons so can we see capacity utilization is going to 100%?
- N. Jagan Mohan Reddy:** We expect the capacity utilization to rise substantially. We think somewhere we expect this year to be about 1.8 million tons and things are improving because as we have said the capex we have made in the last few years is actually helping us now to maximize production.
- Sanjay Jain:** Can you squeeze some more volumes next year?
- N. Jagan Mohan Reddy:** We are trying to do everything possible and hopefully by end of next year or early 2019, we should have additional capacity that comes up online so that should help us in 2019 and going forward, because we plan to aggressively expand on the calcining capacity but we are also at the same time trying to see what are the unique advantages we can bring for calcining instead of just putting up the calciner so I think we have done that and I think we are working towards that so as we go forward you will see higher volumes at much lower cost of production.
- Sanjay Jain:** Can I ask one more question on, if we see the average revenue of CPC about \$337 what I want to understand sense is that where are we in terms of our quarterly price negotiation and this realization versus how the spot market is? What is the gap there and also on the supply input side GPC pricing like are we seeing the impact of higher GPC price already in the P&L or there is coming and what it squeezing in the quarter?

- Gerard M Sweeney:** We are definitely, From a CPC perspective. prices have moved significantly this year, worldwide but really mostly led by Asia tightness is we talked about on prior calls that started back in the fourth quarter of 2016. So we have seen a rapid progression of price quarter-by-quarter to around 2017 so we are very pleased with that development as I said you know it is best driven really by tightness of availability of CPC. We are seeing the same type of progression on our coal tar pitch product as well pricing driven by high demand as well as tightness on coal tar availability where there is very similar in both products from a price progression perspective in 2017 to this point. Where the product differs a little bit is that we have seen a more rapid rise of coal tar prices in 2017 then we have GPC prices, but GPC prices have moved up and they have not moved as precisely and as distinctly as coal tar prices up due to overall tightness of coal tar coming from the steel industry. GPC prices; however are anticipated to move in the New Year; however, comfortable and confident that we are CPC prices will remain buoyant we are keeping an eye on where our GPC prices what in order to control them.
- Sanjay Jain:** Would you like to comment gap between our quarterly prices and the spot market?
- Gerard M Sweeney:** I am sorry our quarterly price and the spot market?
- Sanjay Jain:** Yes.
- Gerard M Sweeney:** There is very little spot CPC pricing that is done but obviously if you are looking for a cargo of CPC in a tight market situation then with rising prices you are paying a higher price than our quarterly negotiations I would expect overall but because our aluminum's reliance on CPC for productions very, very few producers buy on any spot basis. They may buy either occasional cargo here or there.
- Sanjay Jain:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Gunjan Kabra from Niveshaay. Please go ahead.
- Gunjan Kabra:** Congratulations on the great set of numbers. I wanted to ask that last time we were of your opinion that few of our contracts would get renegotiated and the pricing might increase going forward for CPC particularly so how much has that happened in this quarter and how much do you expect to contract negotiation to help us in the next quarter?
- Gerard M Sweeney:** We do not make specific comments on exactly how much prices have moved so I will just reiterate that the prices have moved significantly throughout the year. I would say it is we are moving in large chunks by easily a 20-25% in a given three to six month pricing cycle depending on the customer but how we expect it to continue What we are looking at is still strong demand. Again what will we do not expect that next year will necessarily continue to rise at the rate that it did in 2017 but with that said we do not necessarily expect that we will see weakness to the price either we just believe that the price increases will in all likelihood moderate that we are always careful not to make too much of a forward projection but I say at this point that is the overall feeling for 2018.



**Gunjan Kabra:** Can you give me a sense on what percentage of our contractors still to be renegotiated that we may be providing at earlier price that we provided in the contract and remains will be renegotiated any percentage?

**N. Jagan Mohan Reddy:** No, all contracts are not on a quarterly basis.

**Gunjan Kabra:** Any sense of capacity utilisation?

**Moderator:** Sorry, Mr. Kabra may I request you to join the question queue for any followups. Thank you. We have the next question from the line of HR Gala from Finvest Advisors. Please go ahead.

**HR Gala:** I just wanted to know in this year calendar year how much would be the total capex?

**N. Jagan Mohan Reddy:** We expect it to be about between \$50 and \$60 million.

**HR Gala:** And next year CY2018.

**N. Jagan Mohan Reddy:** Same number.

**HR Gala:** Around same number.

**N. Jagan Mohan Reddy:** Yeah, this is the routine maintenance but we may actually have because we are going to be investing on the new calciner at Vizag so it may increase that is separate but the revenue stream, but general capex and maintenance capex is about \$65 million.

**HR Gala:** So in addition to maintenance capex of \$50 to \$60 million, there will be Expansion Capex of \$65 million for the new CPC Plant in India.

**N. Jagan Mohan Reddy:** Yes because those are revenue accruing projects.

**HR Gala:** Thank you very much.

**Moderator:** Thank you. We have the next question from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

**Bhavesh Chauhan:** Sir, Congratulations on a very good set of results. My question is we have seen a very strong results of EBITDA per ton of close to INR 7,800 in the carbon product segment now you must be carrying inventory lower cost coal tar oil and GPC from the previous quarter end and you have seen a sharp up move in CPC and CTP prices so how much benefit from that we have gained?

**N. Jagan Mohan Reddy:** We cannot comment on any specific information.

- T Srinivasa Rao:** No, inventories are always valued at cost and there will be some stock and like Mr. Gerry mentioned the prices of finished products are moving up in the same way the prices of our raw materials also will be moving up and not that they are stable.
- N. Jagan Mohan Reddy:** Also, as per SAP, inventories are valued on moving weighted average basis.
- Bhavesh Chauhan:** Sir one more question have we seen demand from electrodes going up for our products which we I think we sell around 5% of our total revenue from electrodes so are we seeing a very big jump from that side?
- N. Jagan Mohan Reddy:** Yes actually we do supply our pitch to electrode market that is actually improving quite a bit.
- Bhavesh Chauhan:** Ok. Thank you Sir.
- Moderator:** Thank you. We have the next question from the line of Ghanshyan Binani from EMC Limited. Please go ahead.
- Ghanshyan Binani:** Good evening and congratulations for great results. I would just like to ask a question on the Chemicals business division. What is the capacity utilization currently going on and since we have huge drop in the EBITDA margins over here almost about 71% so you just elaborate a little bit on that?
- N. Jagan Mohan Reddy:** Kris, our Chief Commercial officer sitting here and he will actually address that question.
- Kris Vanherbergen:** So there is a couple of elements that play into this quarter's performance for the chemicals business. First of all this is somewhat of the seasonable business so many of the companies we supply to are small entities, which take a seasonable break over the summer so the tradition is somewhat a weaker quarter. This year we have a couple of one-off items one was an incident that we had in our facility in Uithoorn Netherlands, so we took to some one-off items at the same time of course we continue to look at further building also chemicals part of our business much in the same way as we see the performance on the carbon side developing and that is actually one of the opportunities we see going forward for the overall RAIN business.
- Ghanshyan Binani:** So there is a huge drop in the margins. Is because of volumes or how is it?
- Kris Vanherbergen:** It is mainly the volume issue, price wise I would say it has been rather stable. Some elements of course from a feedstock perspective is also playing as some of the petroleum prices are moving upwards but it is a kind of mixed element that is contributing as well..
- Moderator:** Thank you. We have the next question from the line of Sanjay Nandi from Ratnabali Capital. Please go ahead.

- Sanjay Nandi:** Good evening Sir. My question is on the Cement division like what is your outlook for the Andhra Pradesh and the Telangana housing markets as you had mostly placed in those markets?
- N. Jagan Mohan Reddy:** It is the demand actually we expect 2018 to be quite bullish for the both Telangana and Andhra markets because the especially elections coming in 2019, we expect there should be a strong pickup in public spending for the housing sector and the other areas and as matter as I indicated in the call in my opening remarks we actually saw some improvement in the demand patterns and we expect that it continue going forward and especially 2018 it to be reasonably strong actually in 2018.
- Sanjay Nandi:** What are the markets for Tamil Nadu and Karnataka and Kerala the deep south markets?
- N. Jagan Mohan Reddy:** They actually are good. They have always been good but Tamil Nadu market though it has increased it is somewhat weaker but Karnataka market also has been good but I think 2018 should be good from all areas because hopefully I think 2018 should be good from all perspectives.
- Sanjay Nandi:** Sir the Pet coke market is really booming so the pet coke what we use in the cement clinker is it the same like that with the calcined pet coke what we produce here?
- N. Jagan Mohan Reddy:** No that is fuel grade petroleum coke that is equivalent to coal so that is different material that has low ash so that is why they use that but no it is not the same material.
- Moderator:** Thank you. We have the next question from the line of Sanjay Satpathy from Ampersand Capital. Please go ahead.
- Sanjay Satpathy:** Sir my first question is that you have any kind of negative impact of the storm in Texas? That is one. The second thing is that between Coal Tar Pitch and CPC we are seeing a better attraction in Coal Tar Pitch it is in this quarter is anything specific because to Coal Tar Pitch versus CPC?
- N. Jagan Mohan Reddy:** See on the hurricane in Texas, we did have some impact. It did actually create some issues for our power plant at our Lake Charles location and the power plant actually had to be shut down for almost 45 days so that had impacted operations and some revenue and we also had to operate one of our kilns at a lower capacity because of various reasons so but it took us 45 days to come back so that resulted in lower power generation and lower calcining operating capacity and now the plant is back in full in operation. What was your second question please?
- Sanjay Satpathy:** My question is that between CTP and CPC we are seeing the coal tar pitch have been getting a better price movement etc., so just wanted to understand the difference between the dynamics of both?
- Kris Vanherbergen:** Yeah, this is good question. The differential between both products is mainly due to the nature of the products so the CPC has somewhat longer time where price differentials move to markets. This has to do with longer logistical lines while for the coal tar pitch there is a more quick dynamic of

transferring changes in the material to the end products, but essentially both are undergoing the same dynamics from the market perspective.

**Moderator:** Thank you. We have the next question from the line of Dharmesh Rashthe from BMA Wealth Creators. Please go ahead.

**Dharmesh Rashthe:** Congratulations on wonderful numbers. Pardon me for a question because I am very new to the company. I just want to understand the coal tar pitch is it byproduct of CPC?

**N. Jagan Mohan Reddy:** No Coal Tar is a byproduct of the coke oven batteries from steel industry.

**Dharmesh Rashthe:** Okay. So in the Vizag it will not be yet manufactured?

**N. Jagan Mohan Reddy:** No we do not manufacture it in Vizag.

**Dharmesh Rashthe:** From revenue what is the percentage of total revenue from needle coke in this quarter?

**T. Srinivasa Rao:** Can you repeat the question again please?

**Dharmesh Rashthe:** What is the percentage of revenue that we derive from sales of the needle coke in this quarter?

**N. Jagan Mohan Reddy:** No we do not sell needle coke. It is only calcined petroleum coke. Needle coke goes in to the electrode market. That is a different product we do not make needle coke.

**Dharmesh Rashthe:** Okay and what about phthalic anhydride from Belgium plant?

**N. Jagan Mohan Reddy:** Phthalic anhydride we do produce and we do actually have customers there and actually we do sell that there.

**Moderator:** Thank you. We have the next question from the line of Sudheer Mahajan from Spartan Investments. Please go ahead.

**Sudheer Mahajan:** Congratulations on your wonderful results. In the last AGM, we had spoken that you will be cutting down the raw material cost by a new process of buying high sulfur raw material and the saving of \$40 to \$50. Has that happened?

**N. Jagan Mohan Reddy:** We are actually working and that is always our effort is to reduce raw material cost but what has happened in the last few months we are seeing there is a quite a bit of demand for the green petroleum coke. The cost has generally increased but due to our ability to use lower cost and exotic raw materials, we were able to actually control the cost of raw materials compared to the competitions. I think that has helped us because of our investments into flue gas desulfurization systems and our ability to blend materials has actually helped us to reduce the cost but we may not see because

generally the raw material prices have increased so we actually are yes overall I think we are actually working and I think we have come to a certain we have been able to reduce the cost.

- Sudheer Mahajan:** Yes but when would you be able to replace the low sulfur with the high sulfur raw material?
- N. Jagan Mohan Reddy:** No you cannot completely replace but what you can do is you can process higher sulfur cokes because lot of customers do take higher sulfur cokes but the ability to process them itself is an issue without sulfur dioxide scrubbers. Since we have them we can process the higher sulfur cokes.
- Moderator:** Thank you. We have the next question from the line of Kalpesh Gothi from Veda Investments. Please go ahead.
- Kalpesh Gothi:** Good evening Sir. Congratulations for great set of number. Sir one question on the how much be this point of margin we have saved due to cost optimization?
- N. Jagan Mohan Reddy:** We think we have, I would say that in this results probably that cost optimization may be equivalent to about 7-8% in this year.
- Kalpesh Gothi:** So can it be more scope for in future we can do more?
- N. Jagan Mohan Reddy:** Yes please. That is always an exercise and actually that is part of our budget every year on how much Opex, Capex and Comex savings we can do so that be or that is part of our every year budget also so we continue to look at various ways to reduce cost.
- Kalpesh Gothi:** The last question what is our maintenance capex?
- N. Jagan Mohan Reddy:** As we said about \$50 to \$60 million per annum.
- Moderator:** Thank you. We have the next question from the line of Saumil Mehta from BNP Paribas Mutual Fund. Please go ahead.
- Saumil Mehta:** Thanks for the opportunity. Sir will it be possible for you to take a wild guess what is the kind Calcination capacity closures from China, which would have occurred on the last six to nine months and going forward, do you believe China can be a net importer of CPC and Calcination?
- N. Jagan Mohan Reddy:** We cannot comment on how much shutdowns there were but we think that their capacity reduction during this winter period starting November 15 till about end of March, we do expect that there will be a reduced operating capacity because of the environmental requirements imposed by federal government. But we think that China is kind of is importing calcined petrol for the first time to the extent what we understand is yes they are importing calcined petroleum coke into China. So we do see that.

**Saumil Mehta:** What is the kind of capacity China would be having in terms of calcination if you have to take a wild guess?

**N. Jagan Mohan Reddy:** I would say about almost 55% of the world capacity is actually in China and with about 2,000 calciners I think so.

**Saumil Mehta:** Okay. My second question is that with respect to your long-term margins while you commented that you were seeing a structure upwards what I want to understand what will it take be it in terms of efficiency measures or maybe raw material cost savings that we want to take margins moving up to may be in lot of funds even \$200 like what you saw in some of the other commodities like graphite electrodes like there has been a structural upturn much higher than the long-term average could a similar situation come in the CP coke or it will CTP market?

**N. Jagan Mohan Reddy:** Yes we are generally seeing improvement and we think that hopefully we expect and we think that this maybe the new normal but we cannot comment on those things at this point on time may be we have to see few more quarters to just comment on that, but I think the price, the margin improvement what we have seen maybe actually there for a little longer time but at this point of time we cannot comment on that.

**Moderator:** Thank you. We have the next question from the line of Kunal Banerjee from Brigade Capital Management. Please go ahead.

**Kunal Banerjee:** Actually just on the previous question, I wanted to revisit with that with a few hard numbers and I think in 2011 before you acquired RÜTGERS you used to report the CPC business as a standalone business and I think back then if you look at your price realization on CPC with about 585 a ton GPC price and this is a blended price of 3% sulfur and 1% sulfur was about 270 and your EBITDA per ton was close to 160 a ton and all in dollars and the LME back then was about 2300 so when we look at it today LME is at 2100 and you seem to be in an up cycle here again so the question I have is, is there any structural impairment since or anything to do with the industry that would prevent you from recapturing margin levels of the type we saw in 2011? Anything to do with the industry or your own system, I would actually argue that your system is more efficient today given the India blend strategy as well as the flue gas desulfurization capabilities. But can you just qualitatively compare today's situation with 2011?

**N. Jagan Mohan Reddy:** Thanks Kunal. I think you have asked the question and you have addressed it also. So we agree that you think, yes may be Gerry you can address that?

**Gerard M Sweeney:** Yes sure Kunal, I think you hit the nail on the head. I think to quickly answer is no, we don't see anything that prevents us. Obviously our price realizations compared to 2011 have not approached the level of 2011 but neither our costs and so if you look it is our full intention that much like 2011 where we had a tight GPC market position we have better flexibility and better resilience in our system to

cost them we had back in that day so it is our expectation that we should be able if the market parameters continue to be short overall about CPC that we continue to see a tight market that we do believe we can return to those margin levels.

**Kunal Banerjee:** Thank you.

**Moderator:** Thank you. We have the next question from the line of Aditya Wagde from Equitas. Please go ahead.

**Aditya Wagde:** As far as our CTP realizations, I am looking I think this quarter we did about \$600 per ton approximately so I think this is much higher than what we had anticipated can you just comment on that?

**Kris Vanherbergen:** Coal tar pitch is of course following to the large extent the same dynamics as with CPC. So we have a strong demand from various sectors we are supplying, I think some of you have already mentioned demands from electrode business and also aluminum of course where the same strong growth we see with China declining from the market as we see on the CPC side. So additional to that also the supply coal tar is limited in volumes to here there is a strong environment that supports the prices.

**T. Srinivasa Rao:** And the pitch also includes Carbores which is the high value product

**Kris Vanherbergen:** Pitch there are various grades of pitch that we produce of course many of which go into the aluminum business but also in to the steel and as rightly indicated also going into specialty applications including lithium batteries.

**Moderator:** Thank you. We have the next question from the line of KR Reddy from Mergers India Info. Please go ahead.

**KR Reddy:** Congratulations for a very good set of numbers and especially this created huge investor wealth. My first query is when is the next credit rating is due and what actions company is taking to improve the credit rating? And the second query is what percentage of sales currently come from eco-friendly growth industries?

**N. Jagan Mohan Reddy:** First is on the credit rating, we are evaluating options to refinance our balance debt that is 2021. We may do it in the next one or two quarters. So as part of the refinancing we will be approaching the credit rating agencies and hopefully there should be an upgrade. Eco-friendly means we actually feel ourselves that our company itself is a carbon neutral company because we actually supply mainly to the aluminum industry, which can be recycled infinite number of times whatever was produced 300 years back still remains that is one thing and we do also supply specialty products such as an Novares and all these products, which actually go into the tyre industry, which actually reduce the resistance and actually improves the mileage so these are certain things what we do that does support the green industry. We also produce cogeneration from instead of burning fossil fuels we actually use the flue

gases evolve during the calcinations equivalent of 125 megawatts of power so we think are a carbon neutral kind of company.

**KR Reddy:** Last question if Trump administration able to reduce corporate taxes do we get good benefit or how you see that?

**N. Jagan Mohan Reddy:** Yes it should benefit us because it is almost, I do not know to what level they will reduce but whatever they reduce should benefit us to a great extent.

**KR Reddy:** Appreciate and best of luck.

**Moderator:** Thank you. We have the next question from the line of Akhilesh Kumar an Individual Investor. Please go ahead.

**Akhilesh Kumar:** Congratulation to the entire team for a wonderful performance. Sir I have one question regarding do we have know-how or are we working towards that to develop and what material which is used for lithium ion batteries, some companies like say Himadri or other Japanese companies are looking for lithium ion batteries?

**Kris Vanherbergen:** This is one of the product lines, which we have under the carbon segment so when you produce the lithium batteries, they also have anodes much like in the aluminum industry and these anodes consume coatings for which we are evolved leader. It is one of the very high growth areas that we service and the growth rate here that we have seen this year was in the range of 60% to 70% in line with electric vehicle development.

**Akhilesh Kumar:** Thank you. That is helpful, and one last question I have. How we see the aluminum demand mostly coming from India and Gulf nations in the future? Do we have any plan to setup any CTP plants over here in India because I see here only one major player is there?

**N. Jagan Mohan Reddy:** At this point of time we have not made any decision, so as soon as the Board approves anything we will notify the stock exchanges and we keep you informed.

**Moderator:** Thank you. We have the next question from the line of Himanshu Shukla an Individual Investor. Please go ahead.

**Himanshu Shukla:** My question is about the spread, spread between GPC, your green coke and your end product CPC so can you elaborate in terms of what current spread we are enjoying here compared to say a quarter back?

**N. Jagan Mohan Reddy:** It has improved but we cannot give any specific numbers of any particular products but all I can say with that improved compared to before.



- Himanshu Shukla:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Raghu Garmilla as an Individual Investor. Please go ahead.
- Raghu Garmilla:** Thank you. My question is regarding the pet coke market essentially with the increase in the LNG Asia prices and the shot up of the pet coke gasification plants of some big players do you see a tightness in the pet coke markets going forward and it affecting our business in any other way?
- N. Jagan Mohan Reddy:** No it will not impact us because that is all fuel grade market and we are actually in anode grade market that so that will not impact us.
- Moderator:** Thank you. We have the next question from the line of Jinesh Sanghvi from Principal Mutual Fund. Please go ahead.
- Jinesh Sanghvi:** Can you share the volume guidance for CT Pitch as well, I guess CPC you said 1.8 million tons?
- Kris Vanherbergen:** So we produce about 650,000 tons of coal tar pitch annually.
- Jinesh Sanghvi:** 650,000 tons and what is the max that we could reach in terms of our volumes on the carbon side overall like if I have to look at the run rate we have moved from 0.75 million tons to 0.83 million tons on the carbon side so what is the overall maximum volume that we could reach at our full blown capacity?
- T Srinivasa Rao:** At the current capacity, we may not increase beyond the current level but we announced two expansion projects the CPC plant in India and the debottlenecking of our petro tar facilities in Europe so unless they start operating we cannot increase it beyond from the current level. We are operating all our clients at optimum level at this point of time.
- Moderator:** Thank you. The next question is from the line of Sarvesh Shenai as an Individual investor. Please go ahead.
- Sarvesh Shenai:** What is the current debt level stands at consolidated basis?
- T Srinivasa Rao:** As we already indicated the consolidated debt is in the press release. The gross debt is about \$1,155 million and the net debt is as on September 30, is \$976 million.
- Sarvesh Shenai:** And what is your current working capital days right now?
- T Srinivasa Rao:** Current working capital debt is about \$55 million.
- Sarvesh Shenai:** In terms of days.

- T Srinivasa Rao:** Pardon.
- Sarvesh Shenai:** Current working capital days I am saying.
- N. Jagan Mohan Reddy:** Days, I think it should be very minimal because based on our overall things I would say 55 days.
- Moderator:** Thank you. Ladies and gentlemen that was the last question I now hand the conference over to Mr. Jagan Mohan Reddy for his closing comments. Thank you and over to you Sir!
- N. Jagan Mohan Reddy:** With six consecutive quarters of positive performance the Company is confident of its sustainability going forward in a normal and stabilized market scenario. The Company will continue improving its performance and adding sustainable lasting value in line with its strategic plans and integrated global business model. The Company will continue to watch the market developments and adjust accordingly to maintain its operating strategies. The Company will continue making strategic capital investments from the available opportunities both internal and external that meet our investment guidelines. Certain products in the Chemicals Business are facing head-winds due to competition from Asian vendors and technological changes are impacting demand for them. We are developing a new Chemical portfolio for maximizing the value addition from by-products produced during Tar Distillation. Hydrogenated Hydro Carbon Resins (HHCR) is one such product that can generate stable volumes. The HHCR Capital Project is progressing well and is expected to commence operations in Second Half of 2019. Further to Greenfield expansions such as our Indian Shaft Calciner project, the Company will continue its initiatives to improve capacity utilization across all its production facilities. Thanks for participating in today's call and we look forward to speaking with you next quarter.
- Moderator:** Thank you very much, ladies and gentlemen on behalf of Rain Industries Limited that concludes this conference call. Thank you for joining, you may now disconnect your lines.