



***Q4-CY17 Post Results Earnings Conference Call Transcript
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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

Moderator: Ladies and gentlemen, good day and welcome RAIN INDUSTRIES LIMITED Q4 CY17 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 Fourth 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 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 during the past two years, over to you Jagan.

N. Jagan Mohan Reddy: Thank you, Ryan. A very good evening to all the participants.

At the outset, I would like to share some significant developments during the last two years in RAIN that has allowed your Company to deliver consecutively a better performance Quarter on Quarter. 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. The Company successfully completed 6 key capital projects in the last two years.

It is a great pleasure to inform you all that RAIN has successfully completed its second phase of refinancing in Euros which has enabled your Company to reduce its interest rate on the redeemed debt by about 500 basis points and also extend its major debt repayments until 2025. During the course of refinancing, we were able to achieve an ideal debt-mix between Euro and US Dollar debt to match the underlying cash flows of the company limiting any impact due to exchange rate fluctuations. Further the US Dollar debt being in Bonds at a fixed interest rate will not be impacted by rising interest rates in USA. In addition to this, an internal reorganization was implemented to roll-up 9 redundant companies in Europe and to allocate debt to our European operations allowing us to optimize the location of our debt

Turning to Slide 4 on Completed Capital Projects...As discussed before, 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 MM 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.

RAIN is pleased with the improved performance during the Fourth Quarter of 2017 compared to the Fourth Quarter of 2016 due to the continued benefit from favorable market dynamics together with the strategic initiatives implemented during the last 2 years. The performance of the chemical and cement business was weaker in this Quarter primarily related to the market conditions in which they were operating.

In the Fourth Quarter of 2017, RAIN achieved Consolidated Revenue of ₹31.24 Billion; Consolidated Adjusted EBITDA of ₹6.87 Billion; and Consolidated Adjusted Net Profit of ₹2.98 Billion. From the exchange rate fluctuation perspective, the impact from the appreciation of Euro is substantially offset by depreciation of the USD against the Rupee in the Fourth Quarter of 2017.

Now Gerry Sweeney will take you through the industry developments on the next slide, Gerry.....

Gerard Sweeney:

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

On Slide 6; in the upper left bar chart, as discussed in prior quarters, Aluminum demand continues to grow worldwide. As you can see the bullish trend is projected to continue in the forward years, something we believe the uptick in the global economy over the last few quarters will continue to support, if not accelerate.

On the upper right, we see the healthy performance in the LME Aluminum price, trading between \$2,100 and \$2,200 per ton for some time now. Consistently most bullish on this graph, is the continued decline in LME inventory levels which is supporting the aluminum price above \$2,000 for the last six months. The lower LME Inventories and higher Aluminum prices, coupled with moderating production levels in China, has led to the restarts mentioned in slide 7. The world is still wary of the high inventories in China however, and where these volumes will ultimately wind up in the future. Dumping of aluminum has garnered a lot of attention over the last few years in many countries, especially India and the U.S. If this pattern continues, we expect governments will ultimately take action to block or tax heavily these Chinese imports.

On the lower left, Fuel Oil prices in the Fourth Quarter 2017 improved slightly maintaining their gains over the few years. Fuel Oil prices have increased almost 26% in Fourth Quarter 2017 compared to Fourth Quarter 2016. Commodities such as Benzene and Orthoxylene, have followed a similar price trend which has a positive effect on our "Other Carbons Products" revenues and earnings, specifically our Naphthalene, Phthalic Anhydride, BTX and Carbon Black products produced from our distillation plants.

On slide 7, Asian Primary Aluminum Demand is up 14.3% YTD December 2017 in the most recent industry updates. This is welcome demand growth helping to consume China's excess aluminum production. The increased production growth has also driven China's carbon markets into a hereto unforeseen situation of being tight on availability. This has helped create the favorable market conditions we see on both our CPC and CTP products.

On the upper right, you can see this has resulted in a reduction in exports of CPC from China, and the same is true for coal tar pitch product as well. You can see clearly that the reduction in exports from China has been offset by increased exports from the U.S. Besides stronger demand for CPC, a good portion of these exports represent the execution of our India blend strategy, where product is shipped to India and blended for the domestic and export markets.

On the lower left, we have watched closely the expected winter curtailments projected in China due to 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). These were expected to impact smelting and calcination capacities within China fairly significantly over the winter months. From what has been reported to date, as indicated in the lower left bar chart, there is very minimal impact at just less than 1 million tons. We do expect however, that China will continue these winter measures in the future, and the environmental concerns are irreversible in the country.

On the CPC front, we are not sure of the impact on calcining capacity as yet, as there are no published numbers in this area, but the continued slowing of exports of CPC from China this year continues to drive demand in India and the region in general. And, it would seem to indicate that the calciners in China were forced to reduce production in accordance with the environmental mandates.

It is fairly clear that the aluminum production worldwide will need to expand to keep pace with demand growth. We are seeing the beginning of this with restarts of idled pot lines and previously shuttered smelting facilities in the U.S, as indicated in the lower left of the slide. Most active is Alcoa with a reopening of their Warrick smelter and restart of pot lines at Messina East. The bankrupted smelter of Noranda, will restart as "Magnitude 7" during the second quarter in New Madrid, Missouri; and Century is seriously contemplating restarting idled pot lines at their Mt. Holly and Hawesville facilities in the second half. Clearly, this is the easiest and fastest

production to help burgeoning demand, but the remainder will need to come from new projects in the future.

On slide 8, the Q4 Sales volumes in the carbon segment decreased by 9% YOY predominantly due to a lighter shipment schedule in the quarter, and some delays in CPC shipments into Q1 2018. To be absolutely clear, there is no slowing of demand for our CPC product, just the timing of shipments during the quarter. To this point, CPC sales volumes in India topped 800 thousand Tons for the year, due to execution of our India blend strategy, and aided by our SO₂ scrubber investments over the last few years. Likewise, this supported a significant increase in capacity utilizations at the US calcination facilities. Our Other Carbon Products volumes improved significantly due to the ramp up of our distillation facilities, and contributions from our new projects which increased production.

Revenue from the carbon business in Fourth Quarter 2017 is ₹ 24.77 Billion which is 40.5% higher than corresponding quarter of the prior year. This is a result of increased realizations across all product categories, coupled with improved volumes in our more specialized “Other Carbon Products” category. The Carbon business increased Adjusted EBITDA by ₹ 3.3 Billion YOY versus 2016. This was achieved through margin improvement, and efficient blending of raw materials during the quarter. Also, the investments in our high-quality product lines and our aggressive cost cutting initiatives over the last year helped control costs.

Turning to slide 9, the Chemical segment volumes, excluding trading, were moderately improved YOY with an improvement in revenues due to product pricing, which were ultimately offset by higher raw material prices. In total, Chemicals had revenues of ₹ 4.35 billion in the Fourth Quarter 2017, 9.1% higher than corresponding quarter of the prior year but operating profit was down by ₹ 0.70 billion YOY. The performance of the Chemicals Business was impacted by a few exceptional items which carried down the performance in Q4, 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. I now hand the call back to Jagan to address the Cement business performance on slide 10.

N. Jagan Mohan Reddy: Thanks Gerry. During Fourth Quarter 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 and Odisha partially offset by decrease in volumes in Karnataka, Maharashtra and Goa. Overall Sales volumes increased by 7.8% and sales realizations decreased by 19.7%. The revenue from Cement business during Fourth Quarter 2017 was ₹ 2.12 billion which is 13.4% lower compared to corresponding quarter of the prior year and Adjusted EBITDA was ₹ 0.26 billion which is 14.7% lower compared to the corresponding quarter of the prior year mainly due to lower realizations and increase in cost of inputs.

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. A similar initiative is taken at our Nalgonda facility to set up another 4.1 MW Waste Heat recover power plant with a CAPEX of ₹500 Million which is estimated to commence its operations by January 2019.

On a positive note, we have seen increased market demand in the states of Telangana and Andhra Pradesh 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. Srinivasa Rao:

Thank you, Sir. A warm welcome to all the participants. Turning to slide 11, I would like to update you on the debt position of the Company. At the end of the Fourth Quarter of 2017, the Gross Debt is \$1,158 million including \$50 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 \$50 million, an increase of \$24 million compared to prior year.

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 April 2025. The Company ended the Quarter with a Net debt position of US\$ 999 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\$ 147 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.

As stated by Mr. Jagan on slide 4, we have also completed our second phase of refinancing of the 2021 Notes in January 2018 with the issuance of a Euro denominated Term Loan B of €390 Million at an interest rate of EURIBOR (with a 0% Floor) + 300 BPS. Upon the successful completion of the two refinancing, the effective average rate of interest is reduced by 250 BPS.

Turning to slide 12, due to the overall increase in volumes and quotations, the net working capital invested in the business has increased from US\$ 224 million as at December 31, 2016 to US\$ 396 million as at December 31, 2017 a \$172 million increase.

The Company has minimal scheduled repayments over next few years as the major debt repayments are not scheduled until 2025. The Company has scheduled repayments of US\$ 28 Million during 2018 and US\$ 61 million in next 4 years. However, the Company has the

flexibility to accelerate debt repayments (either prepayment of TLB or bond-purchases), after meeting the working capital requirements and CAPEX for proposed expansion projects.

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 gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Nagraj Chandrasekar from Laburnum Capital. Please go ahead.

N Chandrasekar: I had a question on the volumes in this quarter versus the last quarter. You mentioned some of these is from CPC shipments getting delayed to the next quarter, you are also seeing a decline in CTP shipments QoQ. Could you help us with any kind of guideline on your sort of annualized rate of volumes in both CPC and CTP side for the next financial year?

Gerard Sweeney: We do not give guidance as far as the next financial year.

N Chandrasekar: On the restarts that you mentioned in the US on Slide #6, you mentioned three facilities where various amounts of smelting capacity will restart, could you give us a sense on what that would mean for our volumes very broadly?

Gerard Sweeney: In total volume, we are looking at between all of those potential restarts, we are looking at demand of about 250,000 tons to potentially 300,000 tons of CPC...and again, that would be more demand in the marketplace which is already tight, but not necessarily just demand for us.

N Chandrasekar: One last question on margins. We have seen your margin per ton expand QoQ on the Carbon product side. Just wanted to get a sense of we come to know about price increases being taken towards the end of December and spilling out into January of this year. Are you being able to pass on the increases in your raw material cost? We know that there is a switch green coke prices are going up because refiners are switching towards more asphalt in the next coal tar uptick as well. Are you being able to pass these on and take advantage of the tightness to be able to potentially see that EBITDA per ton margin pick upwards or are you just able to sort of pass on the increase in raw material prices that you are witnessing?

Gerard Sweeney: It is a good question. Thank you. We had a very sizeable enjoyment of price run up last year due to the tightness in the market. We did have raw material prices increase as well along the line QoQ but we are very pleased with our ability to outstrip during 2017 that the raw material prices because of the tight market. During the fourth quarter, we had the benefit of being able to control our raw material prices, we will see them come up, we do not expect for the first quarter any large margin compression, but we are just trying to maintain our margins moving forward which are at a healthy level for us from an industry perspective.

Moderator: Thank you. We will take the next question from the line of Kalpesh Goti from Veda Investment. Please go ahead.

- Kalpesh Goti:** Sir, two questions; one, on the refinancing. So what will be the total interest saving for the calendar year '18?
- N Jagan Mohan Reddy:** It should work out to somewhere about \$25-30 million.
- Kalpesh Goti:** Second question on your tax rate, in this quarter we have some write-back of taxes because in US and Belgium tax law changes, so full impact in calendar year next year. So what will be the effective tax rate?
- T. Srinivasa Rao:** As you all might have seen the US federal government has reduced the corporate tax rate from 35% to 21%. In Belgium also, there is a rate reduction from 34% to 29%. So because of these two events, whatever the deferred tax liability that we have as of December 2017, the future tax liability has been reinstated at the new enacted rate. So because of that we got the tax benefit and the tax provision for the quarter is only about Rs.37 million. We do expect the average consolidated effective tax rate for the group is around 36%. We expect at least a 2-3% reduction going forward from the calendar year 2018 onwards.
- Moderator:** Thank you. We will take the next question from the line of S U Reddy from Mergers India Info. Please go ahead.
- S U Reddy:** Congratulations for good set of numbers and also well-timed refinancing of debt. My query is one, your Cement division requirement is below par consistently when we compare with the peers in the southern region. You are always saying some uptick all but I do not see in terms of bottom line there is any improvement. Can you throw some light on that please?
- N. Jagan Mohan Reddy:** Mainly because the Cement plant has been operating consistently at low capacity utilization, that is increasing the cost and recently the raw material costs also have increased for coal and pet coke because of the duty increases, maybe increase in the imported prices, so all these are adding up and the demand has been slightly only growing up and supply also has been coming in accordance, hopefully, with the increasing in demand going forward, I think that should change, the freight rates are also increasing because if you see in the last one year the diesel costs have increased by Rs.15 or something like that on YoY basis. So all this is adding because we are principally a company that actually uses truck because our plant is not located somewhere nearer railway siding, all these are adding up but hopefully once there is some improvement in the cement demand, we should be because we are seeing that uptick in both the states of Telangana and Andhra Pradesh, though we are seeing some downside in Karnataka and other places. Hopefully, this should help in going forward and increasing the performance.
- S U Reddy:** My second query is all our IT systems are across the geographies well integrated to detect any early or prevent any kind of fraudulent or unauthorized transactions especially in Russia.

N. Jagan Mohan Reddy: Actually, we are in that process and as a matter of fact we are an SAP and entire global system is being integrated now. So we should complete that process and yes, we are fully integrated and we are actually on SAP HANA, the latest system. So I think this should actually protect us from a lot of disruption.

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

Bhavesh Chauhan: My question is on interest rate. Now, looking at the quarterly run rate of 4Q CY'17, I see that your interest on gross borrowings used to something like 8.5%. So I was wondering why it was higher? I was expecting a little lower given that you have done the refinancing in January.

T. Srinivasa Rao: Bhavesh, if you can look at the Slide #11, we provided the whole interest rate what is prevailing as on January 2017, and the interest rate that will be there as of January 2018 post refinancing. Our average interest rate after the January refinancing is about 5.3%.

Bhavesh Chauhan: Second question is on spreads in Carbon segment. Now, better improvement in EBITDA per ton has come because of lower cost and cost optimization that you have done and also product mix. So assuming the market conditions remain similar, we should improve our EBITDA per ton given that your volumes are lower this quarter and actually they should go up?

T. Srinivasa Rao: You might have seen some increase in the volumes both in CPC as well as Coal Tar Pitch and also other Carbon products there is 6% increase in CPC, there is 8% increase in Coal Tar Pitch and about 16% increase in Other Carbon products. So the increase in volumes are also contributing because some of the fixed cost will be spread over a larger volumes, because of that we expect a similar performance would be there.

Moderator: Thank you. We will take the next question from the line of Sanjay Kumar from Vision Investments. Please go ahead.

Sanjay Kumar: Congratulations for good set of results. I just wanted to know the debt seems to be increasing gradually even at a slower pace. So will there be any concrete indications for any ADR issue whereby you can raise up to about Rs.1,500 or 2,000 crores and reduce the debt which can totally transform the company?

N Jagan Mohan Reddy: Actually, you will see reduction of debt starting this quarter because we did think about debt refinancing, we did actually repaid portion of the debt in January '16 and hopefully with better cash accumulation and also current debt permits us to reduce our TLB what was raised in Euro actually we have option to prepay the debt. So with this thing, there is an opportunity for us to reduce our debt going forward.

Sanjay Kumar: That means you will be buying back the bonds which have been...

- N Jagan Mohan Reddy:** No, term loan B which was raised on January 16, actually we have an option to prepay at any point of time.
- Sanjay Kumar:** So there is no plan for ADR or anything like that because three, four years we have been waiting?
- N Jagan Mohan Reddy:** No, because at this point of time, we have healthy cash flow and hopefully we should be doing well and our leverage ratio should be well under control, should be able to bring down well. So with all these things, I think we should be able to repay the debt.
- T. Srinivasa Rao:** One small clarification to you is there is increase in the debt because of the appreciation of Euro against US dollar and there is a minor increase of about \$24 million in working capital, because there is almost \$(+100) million increase is there in the working capital. These two factors have contributed to the increase otherwise there is no increase in the debt.
- Sanjay Kumar:** But in case the Rupee weakens now from 65-67 over the course of one year, again your debt will start to look slightly worse in terms of rupee value?
- T. Srinivasa Rao:** I do agree that, but the only thing is 90% or 85% of our operations are outside India where the cash generation also will happen in dollars and euros.
- Sanjay Kumar:** Just the second question is the rates in Europe are moving higher. So in the previous year you had a very stiff pension liability exceptional. So going ahead, I think you had fixed it at 1.22. So currently, in Europe the rates have moved to around 1.55 for the UK 10-year. So going forward, if there is a raise gradually, just like the US 10-year, will we have a benefit on the pension liability front?
- T. Srinivasa Rao:** As and when the European interest rate will move up, the pension liabilities could decline because the actuarial assumptions will undergo a change, but maybe change in the interest rate and the actual assumptions will not be taken in the Profit & Loss account, they are adjusted directly in other components income.
- Sanjay Kumar:** What is the base rate as on 31st December for investors to gauge the pension liability this one and to which rate of this one is the pension being linked?
- T. Srinivasa Rao:** 10 Years German Government bond is the benchmark for calculating.
- Sanjay Kumar:** Because that has moved up from negative 0.78 to positive 0.68. So is there a movement higher... would we not have good income on the liability front?
- T. Srinivasa Rao:** It will impact to reduction in the pension liability but as I indicated to you it will not be recognized as the profit or loss in the quarter and it will be adjusted in the balance sheet as other comprehensive income.

- Sanjay Kumar:** In your disclosures to the exchanges, you had actually mentioned in a small footnote that your prepayment cost would be \$10 million, that is around Rs.65 crores, but in the results it has come at Rs.111 crores. So why that so much of difference for the prepayment?
- N. Jagan Mohan Reddy:** The prepayment premium is \$10 million or Rs.65 crores, but because of redemption of the 2012 bonds, there was unamortized deferred finance cost of about \$8 million. Though it is not a cash expenditure, we actually have to write-off the deferred finance cost which caused the difference.
- T. Srinivasa Rao:** Just to clarify you, the bonds that we redeemed are due in January 2021 and we have originally issued these bonds in December 2012, and all the debt issuances will be capitalized and amortized over the life of the bonds. If the life of the bond is 8-years, we have written off the liability till December 2017. Now the bond is already repaid on January 16, 2018, it will be prudent to write-off all the unamortized deferred finance cost or the debt issuance cost. That is the reason for the difference in the disclosures made. In the December press release, we only indicated about the redemption premium but in the annual audited accounts, it is redemption premium plus the debt issuance cost, both were there.
- Moderator:** Thank you. We will take the next question from the line of Jimesh Sanghavi from Principal Mutual Fund. Please go ahead.
- Jimesh Sanghavi:** Congratulations on good set of numbers. Wanted to have your thoughts on the percentage increase in the raw material cost in the Carbon segment from the fourth quarter to say the current trend which is there? What percentage of raw material cost increase has already got reflected in the fourth quarter numbers?
- Gerard Sweeney:** From the fourth quarter perspective, we were able to maintain our raw material cost in most parts from the third quarter, and in the first quarter we are seeing an increase, I do not have the exact numbers on what that increase is but we are comfortable in being able to cover the increase with an increase in our sales prices as well.
- Jimesh Sanghavi:** To be on the safer side, can we assume that the current margin trends which have been reported is something which can be easily safeguarded by the company in the first quarter as well as going forward?
- Gerard Sweeney:** The fourth quarter margin is something we are managing toward protecting. We may see slight encouraging but again the margin that we had in the fourth quarter in general terms should be something that we should be able to protect.
- Moderator:** Thank you. We will take the next question from the line of Suhrid Deora from Mentor Capital. Please go ahead.

Suhrid Deora: This also a question for Jerry. Just wanted to get any more insight that you could throw on the Chinese market with regard to CPC supply post Chinese New Year and also with regard to CPC supply versus closure of Aluminum Smelters? The concern is there will be a situation where the aluminum demand in China is lower and CPC supply is higher which puts pressure on prices globally.

Gerard Sweeney: Thanks for the question. I think simply put, China lives itself available because of lack of continuity of information, open for constant consternation but to share with you what we are viewing and what seems apparent to us is that China has gone through this winter of mandated curtailments but truly as expected if you reflect on our commentary, it was likely to be minimal. The actual curtailments in China which larger impact was smelters that were forced to close earlier in the year from a perspective, they had promised to close because they had replaced with new capacity or they were what was deemed illegal capacity, they were not properly permitted and the government shut them down for out ways the curtailments that we ultimately have seen as you see in our slide due to the winter curtailments mandate. With that said, the intelligence that we are getting at our Shanghai office is that the curtailments of calcining from what they are seeing are more substantial than even the curtailments on the smelters in aluminum...capacity, remember, there is a lot of ways that the smelters could stack up anodes but I think to put it in more simple terms for you, there is nothing in the marketplace either in China or outside of China right now that we see changing from what we experienced in the second half of 2017 and that is what gives us confidence in saying that we feel that we will be able to protect our margin moving forward. "Will it be exactly the same as it was in the fourth quarter?" I cannot say that but in general terms we are not worried about large scale margin erosion at this point and the market seems still tight of CPC product and demand remain strong from the aluminum sector globally as well as in China.

Suhrid Deora: You mentioned that there was some delay in shipments in Q4 and Q1, those delays because of inventory issues or because of price negotiation issues?

Gerard Sweeney: It is really a couple; the largest impact related to customers' ability to receive products and in the quarter due to some force majeure conditions that were affecting them. So we agree to push those volumes into the first quarter and then we had beyond that the very usual run of the mill just timing of shipments in December that timing wise fell over because some of these are ocean going vessels that can be a few days later or come in late Jan window of a week that pushed up against the end of the year.

Suhrid Deora: Is Chinese New Year usually an important milestone or calendar year then for you to track see how things change, like could there be a substantial change in the coming quarters because the curtailments have been reducing and some of the capacities coming online?

Gerard Sweeney: It is a good question because we know from a lot of commodities but Chinese New Year can affect change, we especially see that in demand like coal and other commodities that are imported into China, that the New Year can really be stakes in the ground and stakes about they are buying patterns on the New Year. First and foremost, remember, we do not supply product into China.

So we are not affected by any fluctuation, it would have a ripple effect on the market. But there is nothing that we are seeing from China perspective saying that the Chinese New Year had any effectual change on the market dynamics in China or outside from a demand perspective. One thing I would add from the Chinese perspective is that China based on new smelting capacity that is under construction is scheduled to bring online anywhere from kind of 3.5-5 million tons of additional aluminum production capabilities. If you look at the way China is right now, there is no availability of carbon to fill that carbon demand for that new aluminum production. So 2018 presents its challenges before you even consider in order to stay balanced China would have to reduce from other facilities, that amount of aluminum production to not even put further stress on the very delicate supply situation of CPC and Coal Tar Pitch.

Moderator: Thank you. We will take the next question from the line of Rohan Gupta from Edelweiss. Please go ahead.

Rohan Gupta: Sir, you mentioned that definitely we have seen increasing trend in prices both input as well as output prices as well and that would have helped you during this January some inventory led margin and some inventory led higher profit. So when the prices of your end product as well as raw material stabilize that, where you see what will be the fair margin for your product portfolios you will be looking, I think those will be more on a per Kg or Per ton basis rather than looking at the percentage margin, isn't it ?

Gerard Sweeney: I have expressed our target for the first quarter is to maintain our margins that you have seen in the second half of 2017 and I believe we are well positioned in order to do that.

Rohan Gupta: Secondly, if you can just give some duty structure across our product portfolio and there is some chance of the changes in export duty scenario from the government. So how it is going to affect us?

Gerard Sweeney: The duties that have been discussed in the government are contemplated right now as an increase from 2.5% import duty to 10% on a product and from our side we would pass that duty and we have already had discussions with customers in India that duty would be passed along to them.

Rohan Gupta: So the import duty is likely to be increased from 2.5% to 10%?

Gerard Sweeney: From 2.5% right now, the latest indication we have of the mandate is that it would be an increase of 7.5% from 2.5% to 10%.

Rohan Gupta: It will on the CPC or across the Carbon products?

N. Jagan Mohan Reddy: Both on CPC and GPC... both the raw material and the finished product.

Gerard Sweeney: Anything that is imported into India either GPC or CPC will attract that level of duty?

Rohan Gupta: If approved by the government from when it is likely to be applicable?

- N Jagan Mohan Reddy:** It is already approved; it is effective January 5, 2018.
- Moderator:** Thank you. We will take the next question from the line of Vihang Subramaniam from Deutsche Bank. Please go ahead.
- Vihang Subramaniam:** Congratulations on strong set of numbers. I have got a couple of questions; so the Carbon revenue improved only 3% whereas prices rose by 30%. So is that because of the lower volumes?
- Gerard Sweeney:** You have to look at the mix of we had lower volumes which will contribute to lower overall revenues but we had higher prices that helped offset the higher prices added to the revenue.
- Vihang Subramaniam:** Just another quick follow-up question; so the Sec.232 which is going to be implemented in US aims to improve US aluminum industry utilization rates to 80% from like current levels of 46%. So does that imply like greater demand for Carbon products? I know this is a little far-fetched, it could be 18-month horizon kind of thing. But do you have the capacity to tap that increased demand or you will need additional capacity for that?
- Gerard Sweeney:** As you say that those projections you take them at the value they are given, but I think the easiest way to address that is any increase in demand for aluminum in the United States will result in an increase in Carbon demand for our products of both Coal Tar Pitch and CPC. So we will be very well placed to supply that demand and it would be preferable to us conceivably because it is closer with less distribution cost overall. So, if it is yielding better price than we can get with our India blend strategy, we would prioritize the volumes here in the US.
- Vihang Subramaniam:** So the shipment delay to 1Q'18, that has happened like, is that expected to normalize?
- N. Jagan Mohan Reddy:** Whatever shipments have been delayed actually have already gone in the January. So generally these things happen, again next quarter it should not happen. So this is normal part of our shipments because the shipment on December 31 at 12 o'clock, then it would work on January 1st at 2 o'clock, basically it means that bill of lading is next day, so it basically is counted towards next quarter.
- Gerard Sweeney:** Jagan, thank you for that. It is worth noting that you folks look at historically we will have volume fluctuation from time-to-time just based on product timing, so it is not indicative and that is why I unequivocally made the statement to be clear there is no concern about reduction in demand for our product based on just that quarter-over-quarter prior year reduction in volumes.
- Moderator:** Thank you. We will take the next question from the line of Jigar Savla from Vitor Funds. Please go ahead.
- Jigar Savla:** On the same thing of the volume, so basically the 14% reduction in volume on YoY basis is something which say will be compensated in the first quarter of this year?

N Jagan Mohan Reddy: Yes, it is just the timing difference. This is the routine thing in the business because our each shipment is 20,000-25,000 tons, so a couple of shipments missing means which can be made up.

Jigar Savla: What has been the increase in realization QoQ basis from September to December on blended basis?

N Jagan Mohan Reddy: As you can see, we have given the volumes and the revenues, I think you should be able to see that and calculate that. We do not give it by product-by-product but generally we did give you in our press release the volumes as well as revenues by division segment wise, so you should be able to calculate that.

Jigar Savla: The realizations would be stable or upwards even in this current year from January or February are at the same level or higher than December?

N Jagan Mohan Reddy: As I said, we cannot comment on this current quarter, but we always work towards in maintaining margins.

Moderator: Thank you. Due to time constraints, we will take the last question which is from the line of Gunjan Kabra, individual investor. Please go ahead.

Gunjan Kabra: Sir, my first question is regarding the cost like the GPC the prices have risen in Q1 also. I understand that we do So₂ scrubbing we blend high sulphur and the low sulphur coke, right. So what are the cost saving that we do by using the So₂ scrubbing strategy?

Gerard Sweeney: We do not publish exactly what it is. But by rule of thumb, you can look at the differential in raw material cost at a given point in time based on high sulphur versus the low sulphur we would need to run if we did not have the So₂ scrubbing, you can look at the price difference being anywhere from \$20 to \$60 per ton.

Gunjan Kabra: There is a freight cost increase in the US by 15-20% I guess. So how are you planning to mitigate that?

Gerard Sweeney: Our strategy to those products in India, we do use a hedge strategy on freight, that we do research to understand where we believe the freight markets are going, so we have positioned ourselves to not be as vulnerable to the freight increases that we have seen over the last several years but something to consider beyond that, that helps to keep us very competitive and it is a very intelligent way I would say to look into your business and pragmatically deal with it. But any freight increases that you see in the marketplace, as you mentioned 20%, that 20% is on all freights and we move in the large shipment sizes like 50,000 plus of CPC movements from the US into India. While it is a long haul, we take absolute advantage of the larger size vessels. So the freight increase that you see would also be 20% freight increase for products coming out of China or anywhere else. So we feel comfortable with the fact that our shipment size essentially keeps us competitive from a freight perspective when the freight moves up or down and that is part of our total India blend strategy.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Jagan Mohan Reddy for closing comments.

N. Jagan Mohan Reddy: Thank you. The consecutive positive performance of the Company is quite encouraging. The performance which is primarily driven by operational excellence, will allow the Company to sustain its earnings going forward in a normal and stabilized market scenario. The Company will continue adding sustainable lasting value in line with its strategic plans and integrated global business model. Continued monitoring of market developments and adjusting accordingly to maintain its operating strategies will continue to benefit the Company in addition to making strategic capital investments from the available opportunities both internal and external that meet our investment guidelines.

Although certain products in the Chemicals Business are facing head-winds due to competition and technological changes, the Company is currently focusing on improving the performance of the Chemicals business and is developing a new Chemical portfolio for maximizing the value addition from by-products produced during Tar Distillation. I would update you on the initiatives taken by the Company to improve Chemicals performance in the next 1-2 Quarters.

Further to the 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 for today. Thank you for joining us and you may now disconnect your lines.