# RAIN INDUSTRIES LIMITED

RIL/SEs/2024 May 21, 2024

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| The General Manager<br>Department of Corporate Services<br>BSE Limited<br>Phiroze Jeejeebhoy Towers<br>Dalal Street, Fort<br>Mumbai-400 001 | The Manager<br>Listing Department<br>National Stock Exchange of India Limited<br>Bandra Kurla Complex<br>Bandra East,<br>Mumbai – 400 051 |

Dear Sir/ Madam,

Sub: Transcript of Management Commentary on Un-Audited Financial Results of the Company (Standalone, Consolidated and Segment) for the First Quarter ended March 31, 2024 – Reg.

Ref : Scrip Code: 500339 (BSE) & Scrip code : RAIN (NSE)

With reference to the above stated subject, please find enclosed herewith the Transcript of Management Commentary on Un-Audited Financial Results of the Company (Standalone, Consolidated and Segment) for the First Quarter ended March 31, 2024.

This is for your kind information and record.

Thanking you,

Yours faithfully,
for Rain Industries Limited

VENKAT RAMANA REDDY SINGIDI

Digitally signed by VENKAT RAMANA REDDY SINGIDI
Date: 2024.05.21 19:58:38 +05'30'

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Good day ladies and gentlemen.

This is Saranga Pani, General Manager Corporate Reporting and Investor Relations at RAIN Industries Limited. Welcome to the RAIN Industries Limited Q&A session for the First quarter of 2024.

With me on the call today are:

- Mr. Jagan Reddy Nellore – Vice Chairman of RAIN Industries Limited.
- Mr. Gerard Sweeney – President of RAIN Carbon Inc.; and
- Mr. T. Srinivasa Rao – Chief Financial Officer of RAIN Industries Limited

Following the Earnings Presentation and Management Commentary that we released on May 9, 2024, we have been receiving questions from certain investors and analysts regarding industry developments and the status of our expansion projects. Accordingly, RAIN Management will be addressing those questions in today's call.

Before we begin, management would like to mention during this call, we may touch upon forward-looking statements, which encompass diverse topics such as performance, trends, objectives, and strategies. Please be aware that these statements are rooted in our current expectations and may be influenced by potential risks and uncertainties. Certain factors could potentially lead to outcomes differing from those predicted by these forward-looking statements.

With that, we will now start the discussion.

**Sarang**

Gerry, the first question is with regard to our Carbon volumes. We have seen one of the weakest quarters for RAIN in terms of volumes in the recent past. Can we make up for the lost volume of CPC observed in Q1 in the remaining quarters?

**Gerard Sweeney**

Thanks, Sarang. The first quarter of 2024 was the lowest in terms of volumes in the CPC business in the recent past. The delay in shipments was a combination of several factors. Customers worldwide were destocking throughout second half into Q1, after carrying extra stocks for the past couple of years, due to continually rising prices. In essence, the mentality pivoted to, "Why would I commit to more volume than I absolutely need right now, when I know, the price is continuing to fall? This was especially the case in India, where several other factors played into the market causing smelters to pause on their decision making, further complicating the situation. Indian smelters were dealing with our Q1 as their fiscal Q4, which is historically a destocking quarter. Also, the smelters were waiting for the official ruling of Hon'ble Commission for Air Quality Management or CAQM that was to be issued under the directives of the Hon'ble Supreme Court of India. All knew change was coming, but without a clear understanding of the outcome, buyers were extremely cautious in committing to volumes. The CAQM order was ultimately released in February 2024 that has provided better comfort for the industry to move forward. While this timing and market uncertainty resulted in reduced sales volume, the surge in aluminum prices—reaching US$2500 and beyond in April—provides a critical factor for optimism. We anticipate stability in volumes during the remainder of the year but do not anticipate making up these Q1 volumes.

**Sarang**

Thanks Gerry. The next question is: What is the management view on the current situation of Chinese side in terms of exports and pricing? Do you think that situation has bottomed out, or is there a risk, that there is continued irrational behavior there?

**Gerard Sweeney**

It is a good question. I want to be clear here. While no one likes that the Chinese Calciners dropped the market, the market was due for a correction, and they were not irrational in the way they continually dropped their prices. The Chinese were caught with roughly 5 million MT of GPC when the market collapsed. Instead of dealing with it as we have through NRV adjustments and several quarters of reduced margins, they left that material in their ports and imported new lower cost GPC and processed that material. This resulted in an instant reinstatement of margins and competitive edge. They will need to deal with the high-priced inventories at some point in the future, but it created a huge arbitrage that we have been trying to deal with over the last several quarters. This is what renders this period truly distinctive.

This situation also played out in Europe, where integrated refinery producers of CPC, simply process their own production of GPC. So, they simply take the GPC product at immediate market price, so bear no exposure from the cost perspective.

Encouragingly, we have observed a substantial reduction in this arbitrage. From once towering above $100 per ton, we now predominantly observe worldwide pricing nearing parity or achieving it outright.

**Sarang**

Are the issues around the Lake Charles Power Plant outage behind us?

**Gerard Sweeney**

For clarity's sake, the unexpected outage in our power plant was caused by power surge multiple times during a storm locally. It tripped the turbine causing rather extensive damage, which is taking the better part of 6 months to correct. We anticipate completing the repairs in the coming months and being back online early in the second half. This event is fully insurable, but obviously we would prefer to be back online asap.

**Sarang**

The next question is, can we take it that based on the current market trend, margins will normalise for second half of 2024. Is that the right understanding and direction from management?

**Gerard Sweeney**

We typically refrain from offering explicit guidance on future earnings. I will however provide some context. We anticipate that unit margins on our global CPC products will gradually normalize during the second half.

**Sarang**

With the blast furnace capacities decreasing worldwide and the EAF capacities increasing, how is that dynamic playing out for our company? Is it a net negative or a net positive?

**Gerard Sweeney**

There are two distinct paths to steel production: Blast Furnaces vs. Electric Arc Furnaces

Blast Furnaces with their roots tracing back to ancient China, represent the more traditional approach to steel production. In modern blast furnaces, coke (or purified coal) plays a pivotal role. It melts iron ore, yielding pig iron. To refine the steel, oxygen is injected into the furnace. This process reduces the carbon content and eliminates impurities. While blast furnaces are effective, they occupy significant space and emit substantial carbon dioxide. However, they produce excellent quality steel.

Integrated Steel Mills are the mainstay of our coal tar raw material supply. So here, we are affected by the reduction in output. This is why we have made significant investment over the last several years to pivot to the use of alternate tar compounds, bolstering our supply worldwide.

Electric Arc Furnaces or EAFs are a newer incarnation of metallurgical furnaces, which derive their power from electricity. These furnaces melt scrap metal and recycled materials by passing electric current through graphite electrodes. The resulting electric arc generates intense heat, melting the furnace's contents. EAFs boast rapid production capabilities and typically have the benefit of lower initial cost compared to blast furnaces.

The rising adoption of electric arc furnaces will drive demand for graphite electrodes, which rely on coal tar pitch during their manufacturing process. In summary, the utilization of electric arc furnaces offers distinct advantages, making them a beneficial choice for RAIN.

**Sarang**

Our next question is: What is the overall impact of Red Sea crisis on RAIN, as we have noted in opening remarks that it has both positive and negative effect on us.

**Gerard Sweeney**

In regard to the impact of the Red Sea Crisis on us, we have not exactly quantified the effects precisely. I would say it is an overall positive impact on us and will outline both the positive and negative aspects.

The positive impact is that the crisis has sparked increased demand for our Hydrogenated Hydrocarbon Resin or HHCR products in the Advanced Materials segment. As you may be aware, as a result of our delayed and then operating reliability issues, we had teething troubles in stabilization of the operations. This was in a difficult market where Chinese producers were being aggressive on pricing. Since the Red Sea crisis however, European and Mediterranean buyers have seen the reliable availability of our production and are favoring our local products over those from Asia. During the first quarter, we observed a surge in volumes from this segment, directly benefiting our top line. Additionally, more normalized energy prices after the Russian energy crisis, have allowed us to lower costs.

On the flip side, we mostly felt reduced demand on our Engineered products in the Advanced Materials segment due to Red Sea issues. Likewise, the disruptions in container traffic channels led to lower volumes for supply into Asia. These products are remarkably high value and critical to lithium-ion battery production in Asia, as a result they are now finding them away around these issues because they can absorb the added container cost. While the Red Sea Crisis has presented both opportunities and obstacles, our strategic adaptability and resilience will guide us through these turbulent waters.

**Sarang**

Can you quantify the expected smelter restarts in Europe and North America and the timeline for the same?

**Gerard Sweeney**

At this point, we cannot quantify or put a timeline on smelter restarts or new builds, as these are dependent on our smelter partners. They certainly will not affect the demand for this year.

**Sarang**

Our next question is on Advanced Materials segment: Can you provide more details regarding the engineered products segment? Is the demand back to where it was some quarters ago? Are we planning any capacity increase in that segment?

**Gerard Sweeney**

In our recent earnings presentation, we highlighted the performance of our Engineered product segment. Notably, this segment outperformed Q4 in terms of volumes, but is not completely back on volumes to last year. We observed an uptick in both our Carbores and Petrores products, despite the Red Sea over the past quarters. There remains room for improvement though, in pricing. While it has remained relatively flat over the last 1-2 quarters, we are actively working to enhance it further.

On the positive side, our HHCR capacity utilization is showing signs of improvement across successive quarters now. We anticipate this trend to continue as the European Economy gradually normalizes. Factors such as lower inflation rates and reduced energy costs contribute to our optimism. Consequently, we expect increased demand for these products, leading to improved capacity utilization.

**Sarang**

Thank you, Gerry. We now have a few questions for Jagan. The first question is relating to the India CPC business. What is the status regarding the ramp up of the Indian CPC plant? Are we seeing the benefit from the CAQM order as expected in February 2024. Can we expect additional volumes starting from Q2 itself?

**Jagan Nellore**

Thanks, Sarang. To start with, we received the CAQM order in mid-February 2024 with increase in the allocation limits of GPC to calciners from existing 1.4 million tonnes to 1.9 million tonnes from fiscal year beginning April 2024 onwards. This will benefit the DTA plant which was operating at approximately 50% capacity for the past few years. We have already witnessed this in the preliminary allocation by DGFT for FY 2024-25 during April 2024. However, the second part of the order regarding the approval for allocation for the SEZ Unit, it is still under implementation stage where certain approvals from authorities are in progress, and we expect the process to get completed at the earliest. Once the CAQM Order passed under the directions of the Hon'ble Supreme Court of India is implemented, we can see the increase in volumes from the India business.

**Sarang**

Thanks Jagan. Moving on to the next question, With the ramp up of HHCR in Germany and SEZ in India, how are we managing the cash requirements - both for working capital and stabilisation cost for these plants.

**Jagan Nellore**

We have made all necessary preparations to ramp up production at both plants - HHCR in Germany and SEZ CPC plant in India. Currently, we are awaiting the required approvals for the SEZ Plant in India and anticipating a surge in demand for HHCR in Germany. Fortunately, we do not foresee any significant investments needed to stabilize these new facilities. Additionally, due to the recent decrease in raw material and finished goods prices, our existing working capital should be sufficient for meeting the incremental funding requirements.

**Sarang**

Moving on to the next question, what the capex is planned for 2024.

**Jagan Nellore**

Over the past couple of years, our management and Board have maintained a cautious approach when it comes to major capital expenditures. As you may have observed, there have been minimal new capital outlays during this period, despite several proposals being in the pipeline. Our primary objective remains debt reduction in the near future.

However, it is essential to emphasize that maintaining our existing plants requires ongoing maintenance capital expenditures. Approximately US $70-75 million per annum is allocated for this purpose. This investment ensures the smooth operation and longevity of our facilities.

**Sarang**

Moving on to the next question, we are expecting a 50% capacity utilisation in our HHCR facility by the end of the year. What is stopping us from ramping the capacity faster? Is it mainly to do with the stability of the plant or is it more of a demand issue?

**Jagan Nellore**

As previously discussed, HHCR products are high-quality and environmentally friendly that meet the requirements of our diverse clientele across various industries. However, it is essential to acknowledge that HHCR is an energy-intensive product, and cost-effective production remains a critical goal.

Over the past two years, we have grappled with a significant challenge: the soaring energy prices. This surge has directly impacted our plant's operational capacity. Notably, some of our competitors in the European region have either permanently or temporarily shut down their plants due to the same energy-related concerns.

But there is good news on the horizon. Energy prices are gradually returning to pre-spike levels, and recent developments—such as the Red Sea crisis—have led to increased demand. As a result, we are strategically ramping up our plant's capacity to 50% for the time being. Our long-term plan involves a gradual production increase to 70-80%, all while carefully navigating the volatile market dynamics.

As you are aware, balancing supply and demand are crucial. We aim to avoid situations where excessive inventory outpaces demand, adversely affecting pricing. Moreover, the preference of the European players to source locally rather than from China bodes well for our stability and sustained demand growth. Our commitment to quality, efficiency, and adaptability positions us well for the future.

**Sarang**

Moving on to the next question, can you provide some guidance on the improvement/performance of Cement EBITDA in 2024

**Jagan Nellore**

As we analyze the current trends and future prospects, we discover a landscape shaped by both challenges and opportunities for the Indian Cement Industry, which is on an upward trajectory. According to a recent Crisil report, we can expect moderate growth of 4-6% in the fiscal year 2024-25. However, this growth comes against the backdrop of a high base set by the previous three fiscal years. Rising raw material costs pose a challenge that the industry must navigate.

Encouragingly, power and fuel costs for the cement sector are projected to decrease by 13-15% in the current fiscal year. This reduction is attributed to softening coal prices. Such cost optimization measures are crucial for sustaining growth and profitability. Adding to this, as mentioned in our earnings presentation, our expanded solar electricity generation to the existing waste-heat power generation, will not only reduce the carbon footprint but also reduce our overall cost of production.

India's cement industry is gearing up for expansion. Over the next five fiscal years, it aims to augment its capacity by a staggering 150-160 million tonnes per annum. This strategic move is fueled by the anticipation of increased demand from the infrastructure and housing sectors.

Currently, the industry has a manufacturing capacity of 595 million tonnes per annum. Notably, approximately 119 million tonnes per annum were added in the previous five fiscal years, reflecting the industry's commitment to growth.

The demand for cement is poised to surge in the current fiscal year due to the government's unwavering focus on two critical areas: Affordable Housing and Infrastructure Development. Despite the positive outlook, we must acknowledge the realities. Incremental supply and intense competition have led to lower realizations. In the near term, we will need to navigate these challenges while capitalizing on growth opportunities that will have an impact on the EBITDA.

**Sarang**

Thanks Jagan. Our final set of questions are for Srinivas.

With US $50 million SSN due in April 2025 (becoming short-term in nature), what is the plan/source from the management in repaying the debt. Also, can you provide some guidance on overall debt reduction by management over the next 1-2 years.

**Srinivasa Rao**

Thanks, Sarang. We are sitting with a liquidity position of US$ 473 million as at the quarter end March 2024 which include cash balance of approximately US$ 240 million and balance relating to the undrawn credit facilities. As mentioned in the earlier calls, we are moving from the high price market to the downfall cycle which will benefit us from the working capital release point of view and increase in the cash inflows. The US$ 50 million note is due in April 2025 which is the lowest cost debt in our entire capital structure. We are vigilant about the same and are confident in repaying the same on the due date, without making any incremental borrowing. Just to add, during our refinancing in August 2023, we have reduced the overall debt by around US$ 130 million ($80 million of long-term debt and $50 million of short-term debt). Post refinancing, we have repaid approximately Euro 10 million of Term loan B in Germany in the fourth quarter of 2023. In addition, we also repaid Euro 33 million in April 2024 totaling to reduction of approximately Euro 43 million till date post refinancing the overall debt.

**Sarang**

On page 11 of the investor presentation, our cash outflow from financing activities is Indian Rupees 521 Crore. With our interest payment being Indian Rupees 235 Crore and debt repayment of Indian Rupees 8 Crore, what relates to the remaining outgoing?

**Srinivasa Rao**

Just to clarify in detail, the interest expense of Indian Rupees 235 Crore in the income statement is based on accrual basis whereas in the cash flow statement, the outflow of interest payment is based on actual cash movement, which can be higher or lower than accrual. In the current quarter, there was an interest payment/outflow of Indian Rupees 345 Crore in the financing activities as the interest was due for payment on half-yearly basis on the Senior Secured Notes in US (in March and September). Apart from that, there was interest on lease liabilities payment amounting to Indian Rupees 25 Crore during the quarter and repayment of non-current borrowing amounting to Indian Rupees 8 Crore.

The balance amount majorly relating to distribution of dividend to minority shareholders during the quarter, as mentioned in our unaudited financial results point 5 in the notes to accounts, which is also classified as financing cash outflows.

**Sarang**

Our next question is on the Effective Tax Rate (ETR). What is our consolidated effective tax rate? Are there ways to optimise our tax outgo? Last year, our tax outflow was Indian Rupees 344 Crore with our adjusted profit after tax being Indian Rupees153 Crore?

**Srinivasa Rao**

This is a good question. Based on the entities / locations, we operate across globe and the enacted tax rates at respective jurisdictions, our global effective tax rate (ETR) should be in the range of 30-32%. However, as we mentioned in earlier earnings calls, we are not recognizing the deferred tax assets in Germany on the tax attributes like un-claimed interest expense carry forward and unabsorbed tax losses carry forward due to the accounting standards restrictions in certain situations. Similar is the case in US, post the Tax Cuts and Jobs Act in 2017, where there is limitation in the interest expense allowance, certain deferred tax asset portion were un-recognised. Also, with few entities in profit with low tax rate and few entities in losses with high tax rate, will have impact on the overall ETR for the group.

**Sarang**

Our next question is during the closing remarks, in the last slide of the presentation, it was mentioned that the focus for 2024 was cost control. Also, in the call it was mentioned that some initiatives were taken in this regard already. Can you elaborate on the same.

**Srinivasa Rao**

As mentioned by Mr. Jagan during the earnings presentation discussion, we cannot control the markets, but we can control our costs. During this down cycle where the prices are falling from the abnormal range, we see more pressure on the margins and unlike our earlier cycles, which lasted for 2-3 quarters, we are seeing this for a longer period. During this tough situation, management is diligently working on various initiatives to reduce the cost, which we can, by some proactive steps. The measures we have taken are like consolidating corporate offices, reduction of manpower, reduction in the travel costs, optimizing the operational performances etc. We should see the benefit of these in the coming periods.

**Sarang**

Our next question is, we are sitting with a cash position of approximately US$ 240 million. What are the management plans in optimizing the same. Are we generating any treasury income on the same and where is it reported in the Statement of Profit and Loss? Also, what is the management strategy in utilizing the same when we are sitting on the high debt in the books.

**Srinivasa Rao**

This is a good question. If we see the debt in the Group, it is mostly residing in US and Germany in the form of Senior Secured Notes and Term Loan B, respectively. However, the cash balance of US$ 240 million is in various geographies that we operate including India, US, Germany, Canada and Belgium. There are tax implications if we want to move the funds from one geography to other and also considering the maintenance capex and other working capital requirements, we maintain minimum cash balance required at each entity. If any excess funds are available, they are generally invested in fixed deposits on which we earn an interest income depending on the various geographies. The interest income is presented in financial line item of "other income" in the Statement of Profit and Loss. Just to add, we generated an income of Indian Rupees 1,212 million for the year ended December 31, 2023, and Indian Rupees 476 million for the quarter ended March 31, 2024.

**Sarang**

Our last question for today is, during last quarter there were additional one-time finance costs that were expensed off. Hence current quarter finance cost should have been lower by approximately INR 30 crores, but it was not the case. Any reason? And what would be the steady state finance cost per quarter?

**Srinivasa Rao**

We have completed the refinancing in August 2023 and hence there was a one-time additional impact of Indian Rupees 347 million on account of charge off of deferred finance cost relating to prior refinancing during Third quarter of 2023. As the refinancing got completed in mid of Q3, we have seen partial effect of increase in interest expense during that period. During fourth quarter of 2023, we have seen the first-time full impact of increase in interest expense on the overall debt. Hence the interest cost was Indian Rupees 242 Crores in Q3 and 245 Crores in Q4 of 2023. In Q1 of 2024, we have interest expense cost of Indian Rupees 235 Crores which reduced due to partial reduction of Term Loan B to the extent of Euro 10 million. Based on current position, we expect the interest cost to continue in the same range and may reduce further in future based on reduction in overall debt.

Thank you, Srinivas, Jagan and Gerry.

Ladies and gentlemen, this concludes RAIN's Management Q&A session for the First quarter of 2024.