RAIN INDUSTRIES LIMITED

RIL/SEs/2024 May 10, 2024

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

Dear Sir/Madam,

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

This is for your information and records.

Thanking you,

Yours faithfully,
for Rain Industries Limited

VENKAT RAMANA REDDY SINGIDI

Digitally signed by VENKAT RAMANA REDDY SINGIDI
Date: 2024.05.10 14:21:57 +05'30'

S. Venkat Ramana Reddy
Company Secretary

Regd. Office: Rain Center
34, Srinagar Colony
Hyderabad 500073
Telangana, India

Phone : +91 (40) 40401234
Fax: + 91 (40) 40401214
Email:secretarial@rain-industries.com
Website: www.rain-industries.com
CIN:L26942TG1974PLC001693

Introduction by Sarang

Hello, ladies and gentlemen. This is Sarang Pani, General Manager Corporate Reporting and Investor Relations for Rain Industries Limited.

In just a moment, we will take you through the performance of RAIN Industries Limited during the First Quarter of 2024.

Presenters 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.

Before we begin, management would like to mention during this call, we may touch upon forward-looking statements, which encompass various 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. Additionally, we will be delving into specific non-GAAP estimated financial metrics, and the accompanying slides provide the related non-GAAP reconciliations.

Now, if you could turn to Slide 3, Mr. Jagan Reddy will provide an update on key developments in RAIN Group during the First Quarter of 2024. Thank you, and over to Mr. Jagan.

Slide 3 – Jagan Reddy Nellore:

Thank you, Sarang and Hello Everyone,

Turning to Slide 3 of the presentation let us begin with safety. We began First Quarter 2024 with a TRIR, Total Recordable Incident Rate, of 0.14 at RAIN Carbon Inc level. While we obviously strive for zero incidents, the winter months present some unique challenges with slippery conditions and shorter daylight hours. Our focus on safety remains constant and unwavering. As we steadfastly pursue our goal of ingraining safety into every facet of our daily routines, we are excited to unveil a fresh initiative across all our global locations. This initiative underscores the imperative of extending our safety mindset beyond the confines of the RAIN worksites, recognizing the importance of safeguarding ourselves during the entirety of our journeys to and from work. Regrettably, we have witnessed several employee injuries during these commutes, serving as a stark reminder of the necessity to remain vigilant and proactive in always ensuring our well-being.

We finished the first quarter with an EBITDA of 3.3 billion Rupees. Our quarterly earnings are persistently lingering below our typical benchmarks, demanding our utmost attention. Although there is a directional improvement in EBITDA compared to the preceding quarter, we anticipate this progression to be gradual. The primary driver behind this upturn is the lingering margin compression witnessed in our high-volume product segments, calcined petroleum coke ("CPC") and coal tar pitch ("CTP"). Following a period of higher realizations throughout 2021 and 2022, the market took a downward spiral from the second quarter of 2023 onwards, creating significant hurdles in stabilizing both our product pricing and, critically, our operational costs. Typically, our recalibration period spans a couple of quarters, however the present cycle presents unprecedented challenges.

What renders this period truly distinctive, is the descent from historically high CPC and CTP product prices that triggered substantial price differentials globally. Chinese and integrated European producers swiftly slashed their prices, despite the slower decline in raw material costs. Chinese suppliers operate on a just-in-time basis for raw materials, while European producers adjust their production in accordance with market fluctuations. This intercontinental discrepancy exerted immense pricing pressures on independent merchant processors. Encouragingly, we have observed a substantial reduction in this arbitrage phenomenon. From once towering above $100 per ton, we now predominantly observe worldwide pricing nearing parity or achieving it outright.

The other significant challenges for the Carbon business in the first quarter for RAIN includes a major turbine failure at our Lake Charles, CPC Plant that disrupted production, and the continued global conflicts hampered shipping between key markets in Europe and Asia.

Conversely, within our Advanced Materials segment, we witnessed improved earnings buoyed by reduced gas prices and heightened volumes, notably in HHCR. We are particularly gratified by these results, given the traditionally sluggish demand during this period. The uptick in local European demand amidst disruptions in shipping channels for Asian supplies into the Mediterranean and European markets due to the Red Sea conflicts has notably bolstered our business. This trend highlights the Segment's ability to capitalize on unexpected opportunities.

Challenges persist within our Carbon segment, with our EBITDA margin around 10% compared to the normal range of 16%-18%, underscoring the hurdles in aligning raw material costs with finished product prices. The Calcination market continues to face downward pressure on pricing, exacerbated by slower declines in the raw material, green petroleum coke or GPC costs, compared to Calcined Petroleum Coke or CPC prices, primarily due to the constrained availability of GPC in the marketplace. Finally, we are now seeing declining GPC prices, particularly for low sulfur GPC.

Notably, the first quarter saw a significant downturn in CPC volumes, particularly in India, as smelter customers destocked to manage year-end balance sheets and awaited the impacts of new CPC and GPC regulations before making additional purchases. Encouragingly, global aluminium industry prospects are improving, with aluminium prices surpassing the $2500 mark, accompanied by reduced inventories as Europe and the US recently implemented tougher sanctions on trading of aluminium metal from Russia.

In our Carbon segment’s distillation business, product prices have stabilized after a prolonged decline, albeit with margins on Coal Tar Pitch or CTP under continued pressure from escalating Coal Tar raw material costs amidst ongoing global conflicts and reductions in steel production.

Amidst the protracted recovery in our markets, especially within our major Carbon segment products, optimism for a return to normalized earnings in the second half of 2024 is bolstered by recent aluminium price trends and favorable rulings in India facilitating capacity improvements in our calcination operations. Entering Second Quarter 2024, signs of market stabilization indicate a potential return to normalized margins in the latter half of the year, marking a shift from the preceding 18 months of declining global industrial trends.

Positive economic signals abound across major global regions. In the United States, despite apprehensions about inflation, the economy maintains robustness, underscoring sustained consumer demand for goods and housing. Meanwhile, in Europe, energy prices are trending towards pre-war levels, while the industrial sector exhibits promising signs of resurgence. China, after initial concerns of a looming recession, witnessed growth in pivotal sectors such as electric vehicles and electronics during the first quarter of 2024. Looking ahead, an eagerly awaited central party assembly in the upcoming summer is poised to unveil stimulus initiatives targeted at bolstering essential industries and fortifying the banking sector, thereby alleviating economic strain.

Regarding the Cement segment, there are several compelling reasons to maintain a positive outlook. In 2023, we witnessed a robust resurgence in cement demand in South India, with a growth rate of 7 – 8% annually. This surge can be largely attributed to the sustained infrastructure investments by the Indian government, serving as a key catalyst for this expansion. As fuel and energy prices stabilize and demand steadily increases, we project an improvement in our operating margins during the latter part of 2024, following the conclusion of the general elections in India.

Furthermore, our Cement division reached a significant sustainability milestone in 2023. We added a solar power plant to our Nandyal Facility, complementing our existing waste-heat energy production infrastructure. Given that cement production is inherently energy-intensive, with electricity required for raw material processing, fuel preparation, and product grinding, this move towards renewable energy sources is pivotal. By synergizing waste-heat power cogeneration with our expanded solar electricity generation, RAIN is markedly reducing the carbon footprint associated with cement production.

This dual approach not only bolsters our environmental credentials but also underscores our commitment to sustainable practices. This highlights our dedication to reducing our ecological impact while meeting the escalating demand for cement in the market.

We are confident that RAIN is well-positioned to navigate the challenging environment and capitalize on emerging opportunities.

With that, I will now turn over the presentation to Gerry to take you through some additional industry and business updates on Slide 4 …

Gerry…..

Slide 4 – Gerard Sweeney:

Thank you, Jagan, Hello, everyone. It is a pleasure to speak with you again.

Moving on to slide 4, Market publications have consistently projected a positive outlook for the performance of aluminium, despite the downward pricing trend that had been in place, and the slowing demand we were seeing on the customer side. It appears this longer-term optimism has been well-placed. Forecasts suggest that global aluminium production will be more robust over the next couple of years compared to the cumulative output of the past five years. We have even seen an announcement of a new, US green-aluminium smelter from our CPC and CTP customer, Century Aluminum. This would be the first new smelter built in the US in 45 years and follows several recent smelter closures in the US, signaling a regional industry turning point.

Slide 5 – Gerry:

With regards to key commodity price trends and our business during the first quarter of 2024, volumes were clearly the culprit, and primarily in the calcination business worldwide. Carbon segment experienced an overall 13% decline in volumes, and a 4% decline in pricing.

The volume decrease was primarily attributable to a weak shipment schedule in India, due to the earlier mentioned fiscal year and government ruling timing. On the pricing side, we had our first good news in a while. Raw material price reductions outstripped finished products pricing drops for the first time in several quarters. Raw material prices dropped 18% compared to previous quarter, while pricing marginally declined.

On to the distillation side of our Carbon segment, coal tar pitch sales benefitted from increased volumes of 17% in the first quarter compared to the previous quarter. Pitch prices decreased by 9% in the first quarter, driven by aggressive price pushback due to the existing arbitrage. Prices for our coal tar raw material dropped 6% in the same quarter.

Elsewhere in our Carbon segment, our Other Carbon Products category, volumes decreased by 10%, and the pricing has dropped by 7% compared to previous quarter.

We are pleased to report that our Advanced Materials segment's EBITDA was quite strong for the first quarter, with stronger than expected volumes. This was reassuring after a disappointing Q4.

In this segment's "Engineered Products" sub-category, volumes of CARBORES®, and our petroleum based, PETRORES® were up 19% on relatively flat pricing, recovering somewhat from Q4 volumes which were negatively impacted due to the shipping situation in the Red Sea.

Looking at the segment's "Chemical Intermediates" sub-category, our BTX and phthalic anhydride volumes were higher compared with the previous quarter, driven primarily by improved BTX sales on account of increased raw material availability, with pricing remaining relatively flat in this sub-category.

Moving on to the "Resins and Downstream Materials" in our Advanced Materials segment, volumes increased 17% compared to Q4 2023. Pricing fell only slightly in the quarter, after having dropped significantly in Q4. Contrary to the disruptions which our "Engineered Products" business experienced due to Red Sea shipping, this sub-category is benefiting from these same circumstances, as our made-in-Europe products, including HHCR, have seen increased regional demand in the Europe and the Mediterranean. Customers in these areas are realizing the reliability benefit of RAIN's locally produced supply, after yet another supply-chain disruption from Asia. As we have noted in past discussions, most of our competition for these resins comes from Asia, through the Red Sea.

Slide 6 – Gerry:

Moving to Slide 6 on revenue by end-industry, as you can observe, the aluminium industry contributed about 38% of our consolidated revenues, a decrease of 10% compared to the prior quarter primarily driven by the reduced volumes from the Calcination business. We expect this to return to its normal range of 45%-50% of revenue next quarter. The balance revenue is generated from varied industries including construction and carbon black.

With that, I will now turn the presentation to Srinivas, who will take you through the consolidated financial performance of RAIN on Slide 7.

Srinivas, over to you.

Slide 7 – Srinivasa Rao:

Thank you, Gerry, and Hello everyone.

In the First quarter of 2024, RAIN achieved consolidated net revenue of 36.57 billion Rupees compared to 52.09 billion Rupees in the First quarter of 2023, a decrease of 15.52 billion Rupees. This resulted from a decrease in revenue of 16.03 billion Rupees from our Carbon segment and a decrease of 0.10 billion Rupees from our Cement segment; offset by an increase of 0.61 billion Rupees from our Advanced Materials segment.

RAIN's consolidated adjusted EBITDA decreased by 3.59 billion Rupees compared to the prior year. This resulted from a decrease of 3.82 billion Rupees in the Carbon segment and a decrease of 0.07 billion Rupees in the Cement segment; offset by an increase of 0.30 billion Rupees in the Advanced Material segment.

Slide 8 – Srinivasa Rao:

Moving to Slide 8,

Revenue from our Carbon segment was 24.69 billion Rupees for the quarter ended March 31, 2024, as compared to 40.72 billion Rupees for the same period last year.

During the quarter, sales volumes decrease was primarily driven by reduced volumes from the calcination business due to destocking by Asian smelters. During First Quarter CY24, the average blended realisation decreased by ~25.7% on account of lower market quotations across all regions. There was an appreciation of EURO against Indian Rupee by ~2.2% and an appreciation of USD against Indian Rupee by ~0.9%.

Overall, due to the aforesaid reasons, revenue from the Carbon segment decreased by ~39.4% in First Quarter CY24, as compared to First Quarter CY23.

Carbon segment Adjusted EBITDA decreased by ₹3,815 million, as compared to First Quarter CY23, driven primarily due to lower volumes coupled with impact on margins due to delay in reduction of raw material costs in-line with fall in finished goods prices, which was partially offset by appreciation of USD and EURO against Indian Rupee.

Slide 9 – Srinivasa Rao:

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

Revenue from our Advanced Materials segment was 8.21 billion Rupees for the quarter ended March 31, 2024, as compared to 7.60 billion Rupees for the same quarter in 2023.

The increase in volumes was primarily driven by Red Sea crisis impacting Asian supplies, revamp of HHCR plant and availability of raw materials compared to earlier quarters. During First Quarter CY24, realizations decreased by 4.5% due to fall in commodity prices offset by an appreciation of EURO against Indian Rupee by ~2.2%.

Due to the aforesaid reasons, revenue from the Advanced Materials segment increased by ~8.0% during First Quarter CY24, as compared to First Quarter CY23.

Adjusted EBITDA increased by 296 million Rupees as compared to the first quarter of 2023, due to increased volumes, reduced energy prices and appreciation of the Euro against the Indian Rupee.

Slide 10 – Srinivasa Rao:

Moving on the next slide on our Cement business …

During the first quarter of 2024, Cement revenue decreased by 2.7% during First Quarter CY24 as compared to First Quarter CY23 due to decrease in realisations by 5.0% offset by increase in volumes by 2.4%. Our Cement segment Adjusted EBITDA decreased by 69 million Rupees due to lower realisations and increase in operating costs.

Slide 11 – Srinivasa Rao:

Moving on the next slide on debt …

We ended the quarter with total debt of US$ 1,039 million, including working capital debt of US$ 102 million. Net debt was US$ 799 million and, based on LTM EBITDA of US$ 200 million, we ended the quarter with a net debt to EBITDA ratio of 4.0x. We expect the leverage would move towards 3.0X, gradually with improvement in performance coupled with reduction in debt over next few quarters.

You might have noted the decrease in senior-secured notes, which was due to repurchases during the current quarter. The movement in the Euro denominated Term Loan is on account of forex fluctuation of USD against Euro during the quarter.

From a liquidity perspective we ended the quarter with 473 million US dollars of liquidity consisting of 240 million US dollars of cash balance and 233 million US dollars of undrawn credit facilities.

The Group spent approximately 17 million US dollars on its maintenance capital expenditure and plant turnarounds during the first quarter of 2024.

With that, I will now turn the Presentation to Mr. Jagan for closing remarks.

Closing Remarks – Jagan Reddy Nellore:

Thank you, Srinivas.

As we reflect on the continued challenges presented during the first quarter of 2024, we are committed as management to overcoming them in the coming quarters and returning our earnings to normal levels. We want to emphasize that these current market conditions are temporary and do not signify a permanent shift in our trajectory.

We firmly believe that our earnings will gradually return to our historical levels in the forthcoming quarters. We foresee a correction in certain key raw material prices, which will directly impact our financial recovery. We are also realigning our supply chains to accommodate the expected increase in the CPC production in India in the future.

Our Carbon segment's calcination plants in India had been operating well below the rated capacity due to restrictions imposed several years ago on imports of our raw materials into the country. However, with the recent relaxation of those import restrictions by the Hon'ble Commission for Air Quality Management (or, CAQM), based on the directives of the Hon’ble Supreme Court of India; RAIN anticipates finally being able to ramp-up the Indian operations to higher capacities, which would allow us to significantly improve the overall performance. Part of the import relaxation was to increase the import quota of Green Petroleum Coke or GPC from 1.4 million tons per annum to 1.9 million tons per annum. This was implemented by the Directorate General of Foreign Trade (DGFT) through its allocations announced in early April 2024 and allows for increased production at RAIN’s DTA calcination plant in Vizag.

However, the regulatory authorities have yet to formulate the steps for implementing another part of the same CAQM Order, regarding the import of GPC and CPC for RAIN’s Special Economic Zone plant, which cannot begin its ramp-up until that clarity is given. We anticipate those regulations to be issued soon and upon the implementation of the CAQM Order, Your Company’s CPC calcination plants in India can optimize capacity utilization and create a favorable environment for a return on the capital invested in setting up the new CPC Plant in the Special Economic Zone.

We cannot control the markets, but we can control our costs. In that light, we can also report that, throughout this down cycle, we have remained proactive in enhancing our cost efficiency across the board. Our team has implemented significant and sustainable cost-saving measures, not only to safeguard our current earnings but also to fortify them for the future. We have undertaken initiatives such as consolidating corporate offices, optimizing operations, and streamlining our workforce.

We anticipate a positive shift in demand for RAIN products starting in the latter half of 2024. In addition, with our robust R&D strategy, we are confident in our ability to come out of the current down-cycle on top, as we have in the past. We are focused on adapting and thriving in this rapidly evolving market in both the near and long terms.

In closing, I would like to express my sincere gratitude to our dedicated employees for their outstanding work during these challenging times. Their commitment and resilience are instrumental in navigating the company through troubled waters. While the last year presented numerous challenges, we remain steadfast in our commitment to the long-term success of RAIN. We are confident that our strategic initiatives will pave the way for a stronger and more resilient organization.

Thank you for your continued interest in RAIN Industries Limited, and we look forward to next quarter's presentation.