Rain Industries Limited

2QCY14 EARNINGS CONFERENCE CALL

MANAGEMENT:

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MR. Srinivas Rao – Chief Financial Officer, Rain Industries Ltd

MR. Gerard Sweeney – President & Chief Executive Officer,
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ANALYST:

Mr. Niraj Agarwalla - Tata Securities Ltd

Moderator: Ladies and gentlemen, good day and welcome to the Q2 CY 2014 Earnings Conference Call of Rain Industries Limited, hosted by Tata Securities Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Niraj Agarwalla from Tata Securities. Please go ahead.

Niraj Agarwalla: Good evening everyone. I welcome all the participants to the second quarter 2014 Conference Call of Rain Industries Limited. We have with us Mr. Jagan Mohan Reddy, Managing Director of Rain Industries Limited, Mr. Srinivas Rao, Chief Financial Officer of Rain Industries Limited, Mr. Gerard Sweeney, President and CEO of Rain CII Carbon LLC USA and Mr. Henri Steinmetz, President and CEO of Rutgers Group.

We commence the call with opening remarks from Mr. Jagan Reddy providing an update on recent developments at Rain Group. He will then be followed by Mr. Srinivas Rao, providing you the highlights of the financial performance during Q2 2014. Mr. Sweeney will then provide an outlook for the CPC business and Mr. Steinmetz will provide outlook for other carbon products and chemical businesses. This will be followed by question and answer session where the management will answer the questions from the participants.

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. I would now request Mr. Jagan Reddy to provide an update on key developments in the Rain Group. Mr. Reddy.

Jagan Mohan Reddy: Thank you. Welcome to our 2014 second quarter conference call. I would like to start my discussion with the consolidated performance of the Company. During the current quarter, Rain has achieved consolidated revenue of Rs.30.9 billion consolidated operating profit of Rs.3.79 billion and consolidated net profit of Rs.1.24 billion.

The consolidated net profit on a sequential basis increased from Rs.501 million in Q1 2014 to Rs.1235 million in Q2 2014 with recoveries seen in all three business verticals. Cement business has recovered from the negative performance in Q1 2014 with pickup in volumes and improved pricing post the general elections. The increase in dispatches during Q2 2014 was also partly due to delay in monsoon in the state of Andhra Pradesh.

The recovery of cement prices beginning early June the average gross realization improved from Rs.263 per bag of 50 kg in Q1 2014 to Rs.271 per bag in second quarter 2014. Due to the expected increase in demand from the housing and construction of the new state capital, we are reasonably confident to see further improvement in the cement performance going forward.

During this quarter we have seen some improvements in the chemical business although the revenue from chemical business is flat. The positive product mix change and the cost of implementation initiatives have resulted in an improved performance.

From the carbon business perspective, this quarter we have witnessed mixed developments although calcined business is under continued pressure due to stronger green petroleum prices the recovery in naphthalene prices and marginal improvement of margin of coal tar and other input products coupled with cost optimization initiatives in European operations, have improved the overall performance of the calcined segment.

Aluminium prices have crossed a psychological mark of US $2000 per tonne due to the continued deficit in the world aluminium supplies as indicated in our last call. Currently, the Midwest and Rotterdam premiums are at historically high levels of over $400 per tonne. The continued increase in metal imports by Western Europe and North America supporting the high premiums. The combined net imports by these two regions are over 1 million tons during the first half of the year and is expected to increase further in the near future.

Overall the industry is turning optimistic with an expected production growth of over 6% in 2014 driven by strong demand from OECD countries; the metal consumption is expected to grow from about 50 million tonnes in calendar year 2013 to over 54 million tonnes in calendar year 2014. With our presence across the world Rain is well placed to meet the incremental demand from this growing metal production.

To give you an update on strategic developments, our Phthalic Anhydride expansion is going in accordance with the plan scheduled and is expected to start up in Fourth Quarter 2014; however, there may be a delay of three months in the commencement of commercial operations of our Russian project due to the unexpected additional repair work on the existing steel columns.

Our capex spending during first half 2014 was approximately US$ 21 million, which is marginally below our budget due to the said delay in Russian project; however, from overall year perspective we do not expect to see any major change in capex outflows compared to the budget. Considering all these external and internal developments we are cautiously optimistic about our performance in the second half 2014. I would now request Srinivas to provide highlights of the financial performance during second quarter 2014.

Srinivas Rao: Thank you Sir. A warm welcome to all the participants.

To highlight some of the key performance indicators on a consolidated basis, the consolidated net revenues is Rs. 30,898 million during the current quarter, an increase of about 6% compared to Rs. 29,066 million during second quarter of 2013.

Carbon products sales volume during the current quarter is 785000 tonnes, a decrease of 5% compared to 827000 tonnes in second quarter of 2013. Whilst there is a 4% volume increase in the manufactured products reduction in the pet coke trading sales is the primary reason for the lowest volumes. Chemical sales volume during the current quarter is 75000 tonnes, a decrease of 4% compared to 78000 tonnes in the second quarter of 2013 driven by lower chemical trading volumes, which are not completely offset by increase in super-plasticizers and resins and modifiers business.

Cement sales volume during the current quarter is 595 thousand tonnes, an increase of 3% compared to 577000 tonnes in second quarter of 2013 driven by marginal improvements in cement business post the elections coupled with delayed monsoon in South India.

Consolidated operating profit for the current quarter is Rs.3792 million, a decrease of 9% compared to Rs.4145 million achieved during second quarter of 2013 mainly due to sharp fall in operating performance in the cement business higher maintenance costs in the carbon business due to plant shutdowns and lower margins in the carbon business due to extended stress in the aluminium industry, which was partly offset by depreciation of Rupee and improvements in the performance of the chemical business.

During second quarter of 2014 the Group had a foreign exchange gain of Rs.229 million as compared to foreign exchange loss of Rs.103 million in second quarter of 2013. The primary reason for foreign exchange gain in second quarter of 2014 is marginal appreciation of Indian Rupee against US Dollar and Euro and strengthening of Canadian Dollar and Russian Ruble against Euro.

Finance cost during the current quarter is Rs.1482 million, an increase of 6% compared to Rs.1398 million during second quarter of 2013 mainly due to translation impact of foreign currency interest cost.

Effective tax rate during the current quarter is 28%, a marginal increase of 2% compared to 26% during second quarter of 2013.

Consolidated net profit during the current quarter is Rs.1235 million, a decrease of about 11% compared to consolidated reported net profit of Rs.1392 million during second quarter of 2013. The Company achieved a consolidated EPS of Rs.3.67 per share during the current quarter, a decrease of 11% compared to the consolidated EPS of Rs.4.13 per share during second quarter of 2013.

As of June 30, 2014 the Company has consolidated debt of US$ 1340 million including working capital debt of US$96 million and the Company has cash and cash equivalents of about US $215 million. The net debt as of the same date is US $1125 million.

Due to optimization of working capital and delays in capital spending the cash and cash equivalence balance of the group has improved to US $215 million as of June 30, 2014. With the further improvement in the liquidity coupled with the undrawn revolver facilities of about US $199 million the Company is well placed to meet debt servicing obligations on capex projects in pipeline. The major debt repayments are schedule to start only from the calendar year 2018.

I would now like to hand over the call to Mr. Gerard Sweeney to provide outlook of the carbon business. Over to you Gerry.

Gerard M. Sweeney: Thank you Srinivas. Good evening everyone. It is a pleasure to speak to you again. Jagan shared many of the recent changes in the industry, I would like to expand on a few industry specific developments. The recent surge in the metal price over $2000 per metric tonne mark is undoubtedly a positive indication of the direction of the markets, and encouraging for long-term fundamentals and increasing metal production. Aluminium prices have outperformed all other commodities improving by 20% since mid first quarter. During the second quarter of 2014 the global aluminium market saw a supply deficit of about 468000 tonnes resulting in a continued reduction of global inventories.

This was mostly attributable to a widening production deficit in the world outside China and a fall in metal surpluses within China. Since Q1 2013 4.5 million tonnes of aluminum production capacity has been curtailed worldwide. 2.5 million metric tonnes has been in China alone with 1.5 million tonnes of this capacity curtailed during first half of this year and western world aluminium production accounted for 2 million tonnes of those curtailments. During first half 2014 western world production has remained relatively flat with production ramp ups in India and the Middle East replacing more than half million metric tonnes of curtailments in Brazil due to ongoing water and power crisis in that country.

As inventories continue to decline this should signal western producers to consider restarting shuttered capacities and pickup demand for our products. We are pleased with the second quarter margin performance which was improved over the first quarter. This was mainly attributable to raw material price improvement during the quarter. We have initiated second half priced discussions and concluded a few with modest price reduction at this point. Consistent with each semi-annual negotiations over last several years. Customers are attempting to achieve deep reductions in price and we are resisting. Due to increased availability and lower CPC prices in China smelters are trying to use this alternative as a price lever. In most cases Chinese coke is not a viable alternative and we are not accepting this level of price reduction. As with prior negotiations we expect prolonged negotiations with modest price reductions rather than their desired deeper reductions. Our aim is always to offset the sales price reductions through specification changes of GPC price reductions but this has proved more challenging this year as the markets have lagged. Our co-located low Sulphar GPC supply has been reduced due to maintenance turnarounds. We are having to import some product to cover our needs.

In terms of sales volume we have seen some volume reductions due to the earlier stated Brazilian power issues, but most other volumes have been in line with expectations. We expect market conditions to continue to improve from 2015 and have a strategy to increase our sales volume in place. We continue to put our commercial efforts into achieving flexibility and specifications from the smelters to achieve our profitability and control our raw material costs.

Operationally, for the period post the shutdown of operations at the Moundsville West Virginia facility, all other production facilities in the US continue to operate normally. Overall we are pleased with the recovery in our carbon business in light of the continued weak market conditions in the second quarter. With stabilization of the Lake Charles Energy Project, we expect improvement in the contribution from the energy business going forward. We remain committed to controlling our costs managing our balance sheet and growing our business in the future.

Now I would like to hand over the call to my colleague, Mr. Henri Steinmetz to discuss the RÜTGERS business. Henri.

Henri Steinmetz: Thank you Gerry. It gives me immense pleasure to address you all once again. This quarter we have seen good recovery in our European and North American carbon businesses. Sales volume in these two regions has increased by about 14% on sequential basis and 2% on year-on-year basis. While there was continuous pressure on pitch prices we have seen good development in our side products like naphthalene and creosote and strong demand from the carbon black industries. Due to the plant maintenance shutdown BTH volumes are slightly below prior year and below the last quarter.

With regard to the chemical business this quarter we have seen 4% reduction in sales volume both year-on-year and quarter-on-quarter basis driven by lower trading sales. Also the volume has fallen by 4% compared to Q1 2014, the blended per tonne realization has increased by 7% due to the change in the product mix.

From the sourcing perspective, we have not seen much change compared to the earlier periods. Coal Tar availabilities continues to be tight in Europe. Our strategic move of sourcing coal tar from Russia is helping to maintain the throughput. While the lower pitch price scenario in China is continuing to exist. We have seen a marginal recovery in the negative tar for pitch margin in June 2014. The negative margin in China has fallen to its 10 months lows of Euro 45 per tonne.

In Russia we have completed the demolitions of parts of the existing contraction for the implementation of two of its projects. The detailed engineering has been finalized. Things like new steel columns have been ordered and have been delivered to the plants. Construction permits obtained and the general contractor has started mobilizing resources onsite. Although we are targeting to commission phase II by early 2015 as informed by Jagan due to unexpected additional repair work on the existing steel columns we suspect a slight delay of three months in the commencement of the commercial production.

Our 14000 tonne Phthalic Anhydride expansion project at the Zelzate production site in Belgium is progressing as per budget and on time so that we are confident to start production by Q4 of this year. As informed in the last call, we have initiated various cost reduction and working capital optimization projects. Both these initiatives have started showing positive signs. Overall at the Group level, we were able to achieve US$ 35 million of release in working capital during the first half of 2014 and able to cut down energy costs by about 10% in our European operations.

As we are approaching closure to the completion of PA project in Belgium and the distillation project in Russia we are turning optimistic on the expected improvement in the Group's performance in the coming years.

Thank you. I would like to open the meeting up for question and answer session. Over to you operator!

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Tirath Muchhala who is an individual investor. Please go ahead.

Tirath Muchhala: I had two questions; the first question is simply about I understand the cash position that we have and I understand that the liabilities are far into the future three or four years into the future, but in case there is some kind of global recession again or any drastic deterioration in the business environment how are we placed to address any kind of a credit market freeze up? Are we comfortable?

Jagan Mohan Reddy: Basically we think we have undrawn limits and including cash of almost about $400 million, and our annual interest payments is only about $100 million so it is more like $90 million. So I think we are fairly comfortable irrespective of the global recession and we think what we are going through itself is a difficult year and we are reasonably confident with the cash position we have, the undrawn limits as well as with no repayments till end of 2018 we are fairly comfortable.

Tirath Muchhala: Thanks. My second and last question is that we have done a very interesting sizable acquisition. I understand that we are expanding with the PA line and Russia JV, but are we spending enough on improving our competitive position in the CPC and the coal tar business in terms of R&D spends or improving our technological capabilities?

Jagan Mohan Reddy: As a matter of fact we are at an advanced stage of working on higher quality anode and we have already completed the lab trials so we are at the industrial stage and at this time we can only say that much, but yes we are working on whatever we have been expecting in and as part of this acquisition, which was the R&D benefit we are working towards them and we think that we are in the right position at this time.

Tirath Muchhala: Wonderful. Thanks a lot for taking my questions.

Moderator: Thank you very much. The next question is from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.

Sanjay Jain: Could you give a sense on how the cash flows have been in the six months, like you know how much we have generated from operating cash flows? How much actually interest we have paid and what has been the capex? If you have the cash flow statement ready in front of you?

T. Srinivas Rao: Sanjay actually substantial part of the cash increase is on account of release of working capital and we are maintaining good amount of cash at the beginning of the year also to meet the capital part that we have announced in Belgium as well as in Russia, apart from that there is an increase in the cash because of the release from the working capital, about $140 million of operating cash flows we have seen.

Sanjay Jain: This $140 million is operating cash flow?

T. Srinivas Rao: That is including the release of working capital actually.

Sanjay Jain: How much capex we have done?

T. Srinivas Rao: Pardon me.

Sanjay Jain: Capex in the first half?

T. Srinivas Rao: We have about $50 to $60 million of capex budget is there.

Sanjay Jain: For the full year?

T. Srinivas Rao: Next six to nine months.

Sanjay Jain: Sir, what I was asking is that we generated $140 million from the operating cash flows. How much we spent on the capex in the first six months?

T. Srinivas Rao: For the first six months we have spent $21 million.

Sanjay Jain: Is the interest paid almost same as what is the interest expense like? Wanted to get a sense on how much we paid as an interest? Is this same as what is shown in the P&L?

T. Srinivas Rao: The interest payment will not exactly match with the year end but because first half we get $50 million.

Sanjay Jain: Thank you.

Moderator: Thank you very much. Our next question is from Ritesh Shah from Espirito Santo. Please go ahead.

Ritesh Shah: Thanks for the opportunity. Gerard, if you could please elaborate, you spoke about 6% production growth if I heard it right. How do you break it up between ROW and China? Gerard you spoke about 6% production growth, right? Would it be possible for you to break this up between ROW and China?

Gerard M. Sweeney: I believe it is probably 6% itself the production growth is probably in the neighborhood, I do not have exact numbers, but it is probably 4.5% to 5% in China and 1% to 1.5% outside of China from a production growth perspective. Demand growth is clearly outside of China.

Ritesh Shah: In this context how do you see our volumes panning out for the second half?

Gerard M. Sweeney: The volumes for second half as I said in my comments we pretty much set the year early on so we have a good some sketch of our volumes they can kind of move 10%. Now the disruptions in Brazil for the second half are hitting us a little bit in the second half. So, we will be a bit below, but our volumes for second half should be substantially similar to what we had in the first half.

Ritesh Shah: Would it be possible for you to provide some colour on the CPC-GPC spreads and also if you could give some colour on if there have been any capacity spread bounds or incremental capacities, which have been put up on GPC?

Gerard M. Sweeney: Well, outside of the comments that I made related to the Brazilian curtailments from a curtailment perspective there has been nothing else and they are being offset by the Middle East and Indian production gains, but again, it does hit us from a volume perspective. As far as the spread between GPC and CPC the trouble as I alluded to, but I will provide more colour on the issue that we are running into with a lagging market is that historically, we have been able to move our GPC prices pretty consistent. When you consider how long this downward trend has been in the aluminium industry certainly the last three years of the downward trend that we have been under pressure on our prices and we have done a very good job of being able to move our GPC prices consistent with our reductions, but we are clearly now running up against the values of GPC from a fuel grade perspective and continuing to push down our prices, the fuel markets, the alternative markets for the GPC that does not go into calcining have been fairly robust and so we run into the inability on our higher Sulphar grade cokes that alternatively can be sold into them. We are not able to push our prices down in line with what we would like with the price reductions. Also a specific to this year and second quarter and second quarter is that we are getting less production out of our co-located low Sulphar sources on the GPC side and as such we are having to pull in the second half some low Sulphar supply which we normally would not pull in and that is affecting us because that is more expensive on us. So, it is nothing terribly alarming, but that does essentially limit our ability to protect our margins from a pure GPC to CPC economics perspective. What is helping us and will continue to help us is the proactive efforts we have made in the market place to really change specifications, push up the specification of the quality of CPC that we supply to our end consumers and what that allows us to do is be more creative in our sourcing, be less reliant on the need for low

Sulphar, low metals cokes and it is helping us to maintain our margins, but really no opportunity at this point. We are trying to protect it without an opportunity to really grow it until more demand drives that force.

Ritesh Shah: Thanks for this. Specifically on the capacity front, I was referring to I think Oxbow who had a shutdown, I am not very sure whether they have any assets in North America, if you have any details on the capacity on that front and how relevant it is for us it will be very useful?

Gerard M. Sweeney: I am sorry. I did not realize that is what you are referring to. Yes, it is Oxbow did shutdown and essentially permanently shutdown to my knowledge, their Chicago, Illinois US facility and that the timing of that was pretty consistent at least from the announcement perspective was pretty consistent with our announcement to shutdown our Moundsville, West Virginia facility. Now interestingly what that does is it certainly consolidation capacity and limits capacity when demand does come back in the market place and the positive that that provides is that we do not have without Moundsville and I assume that my nearest competitor Oxbow without their Chicago Carbon facility does not have the spare capacity that we both once had, which means pressure on the market will come much quicker than it would if we close both these facilities, and really we believe that will help us in 2015.

Ritesh Shah: Would it be possible for you to quantify what was this Chicago facility capacity?

Gerard M. Sweeney: I do not recall of the top of my head exactly what that capacity was.

T. Srinivas Rao: It was 250,000 metric tonne capacity.

Gerard M. Sweeney: It was 250,000 metric tonnes and our Moundsville facility you know what that was.

Ritesh Shah: If I may, I have two more questions. Any colour on this coal tar pitch spreads, specifically what I have been hearing is in China the coal tar prices have moved up and it has been increasing compliance on the castings foot strength and/or environmental norms, so if you could provide some colour on how does the marginal Chinese guy would be like and technically it would mean there is more than the marginal cost moves up so it would be difficult for the Chinese guy to material out so does this help us either on in front of the pricing front any which ways?

Gerard M. Sweeney: Henri would be the best suit, go ahead Henri.

Henri Steinmetz: I think the coal tar prices they are stabilizing in China and we see the coal tar, which is the pitch price which are lower than the coal tar, we see those prices still low but driven by the side products like naphthalene and oils for the carbon black and pitch have higher prices. So by that I think they realize marginal profits, but what we are seeing in China's at the moment that there is a lot of environmental pressures starting on the producers. So when we look forward, I think in 2015 or 2016 with increased demand of aluminium and the increased pressure from environmental we see a clear improvements, we should see an improvement on the margins there and also when we look at the pitch itself it is pitch is transported today mostly liquid temperature, so we have all the markets like Europe, North America due to the higher logistics costs for pitch. So, I think going forward with the good pricing and side products and improvement in the industry we should see an improvements going forward.

Ritesh Shah: Thanks. One last question for Gerard. I was just reading somewhere Rusal's technology, which will totally do with the materials required to produce aluminium, I am not really educated on the technology front, so it would be great if you could please educate me on this?

Gerard M. Sweeney: I just missed the middle go ahead. You were saying something about did you say specifically what the technology was?

Ritesh Shah: Rusal is talking about providing inert anode technology. I think they are already doing it and this is going to reduce the usage of carbon materials substantially. How do you look at this? Do you think the way in which the aluminium smelting technologies are going to pan out over the next few years, it is going to change? How should one look at this?

Gerard M. Sweeney: With all due respect to Rusal, Alcoa, in earnestly went after the inert anode technology very aggressively probably starting over 10 years ago and we added in full cells in production in Italy. The issues with that we have heard random announcements related to discussions from Rusal also from Chalco. The view on that is one of the inert anode technology is one that certainly will work, but no one has been able to do it economically viable enough or safely enough because of the electromagnetic field that the inert anode pot throws off and as such it is a major health and cost concern so much that though that Alcoa abandoned their research on it feeling that it just simply was not economically viable. I think rather than to just push that aside probably the best way for me to address it however, is to say remember that the advent of a new technology could be something that could happen, but you have to look at it and say how quickly could have been implemented. You are talking about massive investments in aluminium smelters under the conventional carbon method and as such in order to turnaround and retrofit an aluminium smelter in order to incorporate the inert anode technology is almost completely redoing and retooling an aluminium smelter and as such it is a huge investment and it is not something to be viewed as something that will happen tomorrow or day after quite honestly five to 10 years down the road, it is something that is much more, many more business cycles which cause me more concern down the road where we are talking 20+ years in all likelihood before it has a meaningful impact. There is no doubt it has an environmentally positive impact from an emission's perspective; however, beyond that it has the danger to human life attached to it as well.

Ritesh Shah: You just used the word economically viable, the setup cost that you are referring to is the capital cost that you are referring to?

Gerard M. Sweeney: No, what I was saying it is not economically viable.

Ritesh Shah: Thanks a lot for all the answers.

Moderator: Thank you very much. The next question is from the line of Kunal Banerjee from Brigade Capital Management. Please go ahead.

Kunal Banerjee: A few questions for Gerard. First of all on CPC Gerard you talked about having more difficulty sourcing from your some of your GPC for your co-located facilities and I believe you even mentioned that it was due to turnaround at the refineries and you assume that is more temporary issue so you should be able to get back to a normal level of life in those refineries?

Gerard M. Sweeney: Yes that is exactly why it is just more maintenance and so there is nothing that gives us any concern that this would be something that is going to be protracted.

Kunal Banerjee: Sir, I think you also mentioned that the Cogen facilities are still not running at steady state and they will start to run at steady state in the second half. Is that accurate as well?

Gerard M. Sweeney: Yes there is no doubt we have had birthing pains with Lake Charles. We are gaining momentum and it does nothing at this point that is causing us great concern related to the abilities of the plant. There are no limitations that we are finding; however, we are still shaking out the plant. It is certainly taking us longer than we have desired it to or we expected it to. We have gained some momentum in what we have done and we have learnt from it and we are expecting better performance in the second half. We are already performing better in the third quarter.

Kunal Banerjee: What percent of the 12 to 15 million run rate EBITDA are you at today on let us say today what is your run rate today?

Gerard M. Sweeney: I would estimate that we are probably at about 70%.

Kunal Banerjee: Just from a cycle standpoint we have had LME, both aluminum and premiums start to rise through the course of the year, yet you are talking about CPC reductions, price reductions on the second half of the year. Sir my question would be typically what is the lag between the LME price trend and the CPC price trend historically i.e., when you get into 20% in the first half, can you actually start negotiating with your customers for your price increases especially given the fact that the spare capacity has been significantly reduced at this point?

Gerard M. Sweeney: Just as a refresher there really is no correlation between our pricing and the LME. There is certainly sentiment. As we have always said the LME is not as much a focus for us from its actual level as much as it is, its influence on curtailment, I do not mean over simplified but it is more of its influence on curtailments or the limitation of metal production worldwide, but with that said and trying to answer your question really what we are looking at is any indication of western world production increase, restarts of an idle smelter is going to be bullish for us because it is going to increase demand. That said also as China continues to produce more and more that will pull and we are watching that carefully because that will pull and contain the Chinese tonnes that are potentially available now for export. The Chinese have built more capacity from the CPC perspective and the aluminium perspective, but specific from the CPC perspective, they have built more capacity in CPC and that is what we are feeling particularly into the Middle East competing and getting some price pressure related to. What happens is as China continues to produce more and as the demand globally continues to drive upwards at these aggressive rates, and really quite honestly rates higher than we have ever seen historically from the aluminium sector that is going to drive the demand for raw materials and that will really drive the demand for CPC. There is no real tide. There is not really a correlation as to the LME level and really what we can expect from a pricing perspective, but certainly the increased demand, the increased production is the trend that is going to face going forward.

Kunal Banerjee: Then in the second half you talked about modest price reduction, does that lead to margin compression or you are able to offset that with mix or shift?

Gerard M. Sweeney: We are managing that. I would have a better time if I did not have, I will be more confident with my ability to manage it if I did not have the reduced production of the collocated low Sulphar facilities that is where my concern is. So, I am concerned a bit about margin compression, but again it should be contained for the second half of the year and related to those reductions.

Kunal Banerjee: How much should we assume like $10 or what is got a ballpark number for that?

Gerard M. Sweeney: I really again, this is a live situation and we are managing it from day-to-day it is hard thing to really estimate looking forward.

Kunal Banerjee: Then just a couple of questions for Henri. Henri, I think Koppers that it shut down coal tar distillation facility in Europe. I was just wondering how the supply demand dynamics have changed in Europe as a result of that shutdown and then also on PA it seems like Orthoxylene is starting to finally see some price recovery and what are your thought about Orthoxylene will transfer the rest of the year and therefore impact the margins?

Henri Steinmetz: I think to the first correction to the shutdown of that operation of Koppers, I think one excited weak supply in the European continent and that was integrated into their production in Denmark. So actually they could transfer it and fill up the idle capacity they had. So it did not change a lot on the supply side. On the other hand, they have no direct production in the continent anymore. I think from our side, we did some volumes on that side because we were better located with our productions in Belgium and in Germany. So, actually I think from a consolidation point it is a good sign, but those from the location I think we did not suffer from that side, but going forward I think we should probably have also some impact on the profitability or positive impact on the profitability of Koppers. With regard to the phthalic anhydride we see in all our metallic business, again recovery, so I think this will have very good positive impact on this part of our PA plant in the first quarter and also I think with the recovery we would also get better margins on that side. That has a positive impact I think for the second half of the year.

Kunal Banerjee: Lastly, for Srinivas. Srinivas, what sort of ongoing and environment payments should we expect for the rest of this year and also some guidance on that would be helpful, because I think the street as well as the buyer side it is basically a model that that seems to be the delta between where the streets are at and where you guys are coming out at. So some guidance on that would be helpful.

T. Srinivas Rao: Kunal, we reached the settlement with the prior owners but the only thing is we are evaluating certain pending obligation unless we complete the evaluation of those pending obligations we may not be able to recognize any further amount and it could happen in the third quarter of 2014 or it could happen in the fourth quarter of 2014. As the evaluation is not yet completed, we cannot provide any numbers to you, but I can say that most of the issues with the prior owners is fully settled as of now.

Kunal Banerjee: So, you can expect a little bit of a tail but majority of the payments that they have made or have been received?

T. Srinivas Rao: Yes. The payment with the prior owners is done with evaluation of the pending liabilities is pending.

Kunal Banerjee: Thank you very much.

Moderator: Thank you very much. The next question is from the line of Mittul Kalawadia from ICICI Prudential. Please go ahead.

Mittul Kalawadia: First I wanted to just understand there was a comment, which was said that aluminium demand ex of China seems to be good, and just what I am confused about is since there is a very high physical premium for the aluminium which is there globally, are you guys seeing a good amount of startup happening ex of China or is it that the end users are buying aluminium from China and making the final products in Europe or US. How is that scenario happening?

Gerard M. Sweeney: Let me answer the first part of your question first. We are not seeing a ramp up yet in the western world because the inventories that exist are still there to be digested. From the Chinese question perspective, the Chinese are not necessarily exporting metal in flooding the markets per se, but the Chinese are still exporting fabricated and semi-fabricated products very largely. There can be the case where we see more Chinese metals coming out, but again they do not compete well from a cost perspective on Indian itself. The advantage of Chinese is much more and they save money much more competitive against the west in the fabricated and semi-fabricated products. With that said, I understand from the nature of your question it is kind of how do you see this playing out. From the western perspective outside of China we are already seeing as we noted in our comments in several places we are already seeing strong demand and strong premiums in the world outside of China and what that is doing is driving premiums higher to historical level as Jagan had noted. With that what you see is it is driving also LME as far as the future expectation of where we are going over $2000 per ton is getting much healthier for the aluminum industry. What I expect for 2015 is I would just say even for that before we talk about 2015 even for the second half of this year I see much more of a scenario where the supply deficit of demand versus production continues in the negative nearly half a million tonnes of deficit that I referred to earlier continues to grow and probably more rapidly and that essentially that is pulling on the inventories that are available worldwide both on the LME and stocks held of the LME and as that continues to happen and projected forward I believe by the end of the year we will see western producers starting to talk to us about specific smelters and lines it will probably start with high idle lines at some active smelters that they are looking to restart. I do not know Henri, or Jagan do you have any different view from what I just expressed?

Jagan Mohan Reddy: No.

Mittul Kalawadia: With respect to the capex which we are doing in Russia where there seems to be increasing intention, there seems to be lots of geopolitical noise around there. Is there any plan or is there any concern which we have seen, last time also I had asked this and there was no concern then, but just wanted to know if there is anything specific on this front?

Henri Steinmetz: I think from our side we are following daily the situation, I think at the moment as I said last time also as long as the people talk and things are progressing I do not see a risk, but I am not knowing the details on the politics at the moment to give or I will not take care. On the other hand, I hear the news that for the petrochemical industry Exxon and BP are still working or continuing their project as well in Russia. So I think important to know is that the partners is not that much linked to the criminal and so from his perspective he has a low risk on that side, but we are following it to do, but at the moment we are seeing like last time everything under control so far.

Mittul Kalawadia: Okay, on the European steel side since demand for the steel also seems to be increasing is there any increased supply on the coal tar that we have seen or do you see steel production going up and then the supply would be also a bit higher. Is that something which we can?

Henri Steinmetz: I think if you look to the cokeries in Europe as we are there and if I look to the European producers they are basically up to 60% to 70% captive on coke production, so the increase will predominantly come from imported coke. On the other hand, at the moment in Germany they are just starting up a new cokery which had developed 30000 tonnes of tar to Europe.

Mittul Kalawadia: Would this help bring out down some raw material cost for us.

Henri Steinmetz: I think at the moment the cost we are watching very clearly. We always have with the coal tar you have to look at the arbitration between the oil prices. So at the moment we are at the level where we think that if the coal tar prices go more down people will switch more and burning it as an energy resource, so even if the wordings at the moment will go up we do not see very marginal reduction in coal tar price because of energy prices.

Mittul Kalawadia: Lastly on the P&L side, we have this quarter recorded in exceptional or foreign exchange gain in the P&L. If I am not wrong we used to earlier provide for only losses and not the gains in the P&L. Is there any changing strategy or is there to the extent that you have provided loss you can provide gains also. How is that?

Moderator: The next question will be the last question and it is a follow-up question from the line of Ritesh Shah from Espirito Santo. Please go ahead. Mr. Shah your line has been unmuted. Please go ahead with your question.

Ritesh Shah: I think you spoke about idle capacities in North America and Europe, is it possible for you to quantify the smelting capacity with our country and you think possibly there is something which will be ramped up in second half?

Jagan Mohan Reddy: You are referring the CPC or aluminum.

Ritesh Shah: Aluminum.

Jagan Mohan Reddy: Gerard.

Gerard M. Sweeney: There is none that will be ramped up. As far as the western world we are not expecting anything to be ramped up in the second half per se if aluminum smelter is a facility that is not turned on and off by a switch. There is a huge amount of preparation. So the planning that goes into it is even turning on pots line is I would say minimum six-month process from a restart and then a restart pots. They do not turn on the whole line. So it is a process that has to take place. There is no expectation for the second half, but what we do expect is that we will start to get the questions of the ability to supply for 2015 based on the timing of which they are looking at restarting. Obviously, the thing that benefits us is that if they are looking at restarting pots they have got to make anodes in advance of that restart, so we would be in front of the actual restart where they would ramp up their carbon plant to produce more anodes in order to feed that and build their safety stock.

Ritesh Shah: Just to take this further when you discuss your contracts with them, what is the sense you are getting, what is that the smelters are waiting for? Is it the higher oil rates they are looking at or is that something on the cost side because if unless that the profitability for the smelters given record high premium there should not be any reason where the smelters should not start up the capacities.

Gerard M. Sweeney: But I think there has been perfectly sound reason for them not having run to this point. I would agree with you that I think in the future when you look at the trend of demand versus current production of course folks are a bit careful here where they consider to restart because of the lessons learned from 2011 with the Chinese ramping up production and exporting their semi-fabricated and fabricated products. The trend here that I think is very promising is that if we go back to the comments in my section that we have seen a million and a half tonne of curtailment in China this year that really related to environmental and cost considerations. They are smaller higher cost smelters that they have been taking offline. So that is very positive is that the Chinese are not necessarily ramping up more production but they are taking offline. In the western world, really the reductions that we have seen the two million tons of reduction, the first million and the half of that was really already taken of in 2013, in 2014 we have seen a half a million tons come off in Brazil, but that is really related to the low water situation in the power supply which is uncertain as to whether that will come back or not, but there is no doubt that in board rooms and in strategic planning rooms of western smelters that they are now evaluating when to restart capacity because the discussion of recovery of the aluminum market appears to be upon us.

Ritesh Shah: One last question, if it is possible for you to provide some sensitivity on one as given the planning crude prices you have a lot of by-products specifically at Rütgers, which I believe will have pricing that is directly linked to crude, so if you have some sensitivity say around $10 drop in crude prices, how it impacts our margins, at Rütgers and similarly its our natural gas prices specifically impacting the energy credits that we have for US operations at CII?

Gerard M. Sweeney: Henri that is a better question for you I believe.

Henri Steinmetz: The gas credit to the energy in the US that I think for you, I think on the by-product you see about 50% of the tar is other products and pitch and they have a mix of naphthalene and you have 15% naphthalene, 35% oil, which is linked to the oil price, so when you look to the price or $1 will give you half a dollar in margin that is how you can look at it.

Ritesh Shah: What you are referring to the 1$ drop in crude by this, is it a half a dollar drop?

Henri Steinmetz: $1, crude price could have half a dollar, I mean when you look into the price which the oil price units will have 50% impact on the margin over the pitch.

Ritesh Shah: On the energy credits for US. I am referring to that if the natural gas prices go down in U.S., how would it impact our energy credits for the U.S. operation?

T. Srinivas Rao: For us we are not very much impacted by that. Our prices are more linked to nonconventional energy so we have some fixed rate with the utilities, so the energy is not technically going to impact as much.

Ritesh Shah: Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Agarwalla. Over to you Sir!

Niraj Agarwalla: I would thank the management of Rain Industries to give us an opportunity to host this call. Mr. Reddy would you like to make any closing remarks?

Jagan Mohan Reddy: Thank you everyone for participating in the call. We continue to concentrate our efforts to complete all ongoing capital projects and further enhance our operational excellence programs to achieve the sustainable reduction in the operational cost. We are also running all our R&D initiatives at faster pace to catch the incremental demand from the growing aluminum industry. We appreciate your support. Thanking you once again.

Moderator: Thank you. Ladies and gentlemen, on behalf of Tata Securities, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

Note:
1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.