

Management Discussion and Analysis

1. Company Overview

RAIN Group is one of the world's largest producers of calcined petroleum coke (CPC) and coal tar pitch (CTP). We operate in three key business verticals: Carbon, Advanced Materials and Cement. We have 16 production facilities in seven countries across three continents and continue to grow through capacity expansions, mergers and acquisitions throughout the world across all business segments.

Our Carbon business segment converts the by-products of oil refining [i.e., green petroleum coke (GPC)] and steel production (i.e., coal tar) into high-value carbon-based products [i.e., calcined petroleum coke ("CPC"), coal tar pitch ("CTP") and other carbon products ("OCP")]. These products are critical raw materials for aluminium, graphite, carbon black, wood preservation, titanium dioxide, refractory and several other global industries.

Our Advanced Materials business segment carries out the innovative downstream transformation of a portion of our carbon output, petrochemicals and other raw materials into high-value, eco-friendly raw materials under three sub-segments of engineered products, chemical intermediates and resins, which are critical to the specialty chemicals, coatings, construction automotive, petroleum and several other global industries.

Our Cement business segment produces and markets high-quality ordinary portland cement ("OPC") and portland pozzolana cement ("PPC"), which are consumed largely by the civil construction and infrastructure industries within India.

Our scale and process sophistication provide us the flexibility to capitalise on market opportunities by selecting raw materials from a wide range of sources across various geographies, adjusting the composition of our product mix and offering products that meet stringent customer specifications, including several specialty products.

Our global manufacturing footprint and our integrated worldwide logistics network have also strategically positioned us to capitalise on market opportunities by addressing raw material supply and product demand on a global basis, in both established (mainly North America and Europe) and emerging markets (mainly Asia and the Middle East).

The following operating and financial review is intended to convey the management's perspective on the operating and financial performance of RAIN Group for the year ended December 31, 2022. This should be read in conjunction

with the Company's Standalone and Consolidated Financial Statements, the schedules and notes thereto and the other information included elsewhere in the Annual Report. RAIN Group's Financial Statements have been prepared in compliance with the requirements of the Companies Act, 2013, the guidelines issued by the Securities and Exchange Board of India (SEBI), in accordance with the Indian Accounting Standards (Ind AS) and other accounting principles generally accepted in India.

2. Discussion on Financial Performance:

Consolidated Financial Performance:

Particulars	₹ in Million	
	CY 2022	CY 2021
Income from Operations	210,110	145,268
Adjusted Operating Profit	37,545	25,174
Operating Profit (%)	17.9%	17.3%
Profit Before Tax	23,273	12,764
Adjusted Profit After Tax @	16,980	7,560

@ After Non-controlling interest

Operating profit and profit after tax are adjusted with exceptional and one-off items. Please find hereunder the reconciliation of reported operating profit and reported profit after tax with adjusted operating profit and adjusted profit after tax.

Reconciliation	₹ in Million	
	Operating Profit	Profit After Tax
Reported	36,381	14,387
Adjustments:		
Gain on Bond re-purchase (buyback)	(30)	(30)
Insurance claims received during the quarter related to prior periods and other operating income adjustments	(206)	(206)
Gain on sale of polymer business	(33)	(33)
Expenses towards strategic projects and other non-recurring items	1,367	1,367
Costs incurred on account of hurricane at Lake Charles plant in United States	66	66
Impairment of pond pitch/dual-solvent project	-	466
Tax impact on above adjustments	-	(151)
Other tax adjustments	-	1,114
Adjusted	37,545	16,980

During CY 2022, our business generated revenue from operations of ₹ 210.1 billion and operating profit of ₹ 37.5 billion. The revenue in CY 2022 was higher by 44.6% compared to CY 2021 mainly due to higher price realisations and appreciation of USD against INR offset by reduction in volumes and depreciation of Euro against INR. The operating margins in CY 2022 were higher due to increased realisations offset with an increase in raw material costs and other operating costs. As a result, the profit after tax in CY 2022 was ₹ 17.0 billion (i.e., ₹ 9.4 billion higher than the ₹ 7.6 billion generated in CY 2021).

Consequently, the adjusted earnings per share was ₹ 50.49 in CY 2022 as against ₹ 22.48 in CY 2021.

With a better performance in CY 2022 coupled with a strong cash balance of ₹ 18.0 billion and undrawn working capital loans of ₹ 10.6 billion, RAIN Group is well placed to meet its debt-servicing obligations in the future and fund the expansion projects initiated. The major debt repayments are scheduled to start in January 2025.

The paid-up share capital of RAIN Industries Limited as on December 31, 2022, is ₹ 672,691,358, comprising 336,345,679 fully paid-up equity shares of ₹ 2 each.

Details of Key Financial Ratios (Consolidated):

Sl. No	Key Financial Ratios	₹ in Million		
		Financial year 2022	Financial year 2021	Variance
(i)	Debtors Turnover	10.02	10.41	-4%
(ii)	Inventory Turnover	3.21	3.62	-11%
(iii)	Interest Coverage Ratio	7.85	5.57	41%
(iv)	Current Ratio	2.36	2.19	8%
(v)	Net Debt Equity Ratio	0.90	1.07	-15%
(vi)	Adjusted Operating Profit Margin (%)	18%	17%	6%
(vii)	Adjusted Net Profit Margin (%)	8%	5%	60%
(viii)	Return on Net Worth	20%	12%	67%

The interest coverage ratio has increased during the current year as compared to previous year mainly on account of higher operating margin due to increased realisations. Current ratio is higher on account of higher inventory balance due to increase raw material costs.

3. Performance of Carbon Business Segment

Particulars	₹ in Million	
	CY 2022	CY 2021
Sales Volumes ('000 Tonnes)	2,430	2,529
Net Revenue	154,613	96,966
Operating Profit	34,792	20,884
Operating Profit (%)	22.5%	21.5%

Our Carbon business segment includes the manufacturing and trading of carbon products comprising CPC, CTP, GPC and other derivatives of coal distillation, including creosote oil, naphthalene, carbon black oil and other basic aromatic oils. Energy produced through waste-heat recovery in the manufacturing of CPC is also included in the Carbon business segment. About 74.0% of RAIN Group's consolidated revenue for CY 2022 was generated from the Carbon business segment.

During CY 2022, the Carbon business segment generated ₹ 154.6 billion in net revenue, an increase of approximately 59.5% as compared to ₹ 97.0 billion generated during CY 2021. The increase in revenue was due to increase in average realisations by approximately 52.1% couple with exchange fluctuation from appreciation of USD against Indian Rupee by 6.3%. The operating margin increased to 22.5% in CY 2022 as compared to 21.5% in CY 2021. Margins increased in the Carbon business due to improved realisations offset by an increase in raw material costs across regions and increase in energy cost in Europe.

With prices stabilising by end of the year, steady-to-increased demand by end-customer industries, we expect the Carbon business segment to continue stabilised margins.

4. Performance of Advanced Materials Business Segment

Particulars	₹ in Million	
	CY 2022	CY 2021
Sales Volumes ('000 Tonnes)	310	385
Net Revenue	39,104	32,910
Operating Profit	1,348	1,555
Operating Profit (%)	3.4%	4.7%

Our Advanced Materials business segment mainly comprises engineered products, chemical intermediates and resins, which are derived from our primary distillate – naphthalene – and additional raw materials purchased from third parties. About 18.7% of RAIN Group's consolidated revenue for CY 2022 was from the Advanced Materials business segment.

During CY 2022, our Advanced Materials business segment generated ₹ 39.1 billion in net revenue, an increase of 18.8% as compared to ₹ 32.9 billion during CY 2021. The increase was primarily related to a 38.7% increase in blended price realisations during CY 2022 offset by a 19.5% decrease in sales volumes. The operating margin decreased from 4.7% in CY 2021 to 3.4% in CY 2022 due to an unprecedented increase in energy costs in Europe coupled with incremental operating costs.

With stabilisation of energy prices in Germany, improvement of HHCR plant operations and various cost measures planned during the year, we expect the Advanced Materials business segment to improve in next few years.

5. Performance of Cement Business Segment

Particulars	₹ in Million	
	CY 2022	CY 2021
Sales Volumes ('000 Tonnes)	3,124	2,895
Net Revenue	15,345	13,821
Operating Profit	1,405	2,735
Operating Profit (%)	9.2%	19.8%

Our Cement business segment is engaged in the manufacture and sale of cement. The products include high-quality OPC and PPC. About 7.3% of the consolidated revenue of RAIN Group for CY 2022 was from this business segment. During CY 2022, this segment generated ₹ 15.3 billion in net revenue. Due to an increase in volumes of approximately 7.9% in CY 2022 compared to CY 2021, coupled with an increase in price realisations by 2.9%, there was an increase in revenue by approximately 11.0% compared to ₹ 13.8 billion during CY 2021. The Cement business segment operated at an average capacity utilisation of approximately 79% during CY 2022 compared to approximately 69.5% in CY 2021.

The operating margin of Cement business decreased from 19.8% in CY 2021 to 9.2% in CY 2022 due to higher energy costs partially offset by increased volumes and realisations.

With expected growth in demand from rural markets in South India and implementation of cost-optimisation initiatives, we expect the Cement business segment to perform better in the future.

6. Overall Business And Growth Strategies

RAIN Group aims at process improvement and the development of new, higher-margin products and technologies through research and development (R&D) initiatives. We emphasise performance improvement, sustainability and utilisation of alternative raw materials. The Group intends to maximise efficiencies and minimise costs by combining the purchasing, trading, plant operations, logistics management, finance and R&D functions within each business segment and by executing cost-reduction initiatives.

RAIN Group believes that the scale of its vertically integrated organisation will provide an effective platform to continue to develop higher-margin downstream products. The size and efficient logistic networks of our plants allow RAIN Group to realise economies of scale.

The Group has integrated our coal tar and petroleum tar distillation operations with our downstream operations that efficiently use the products derived from our primary distillation process and allow generation of incremental margins greater than the margins generated through the sale of conventional primary distillation products. Over the next few years, the demand for carbon products, such as CTP and CPC, is expected to grow in Asia and North America. To reinforce our market leadership as a provider of premium carbon products and innovative advanced materials, the Company has undertaken several capacity-expansion projects like the vertical-shaft kiln CPC plant in India and hydrogenated hydrocarbon resins (HHCR) facility in Germany.

7. Internal Control Systems And Their Adequacy

The Company established an in-house internal audit department in India to carry out robust reviews of various RAIN Group companies in India, Europe and North America. Further, Ernst & Young LLP, India (EY) carries out the internal audit of the Company and special reviews of other subsidiary companies, as needed. The observations of both in-house internal auditors and EY and their recommendations are presented to the Audit Committee of the Company. Also, the implementation of recommendations of internal auditors are reviewed during monthly review meetings and reported to the Board of Directors' Audit Committee on a quarterly basis.

RAIN Group has optimal internal control systems and procedures in place to handle all its business processes such as purchasing raw materials and stores, including components, plant and machinery equipment and the sale of goods and other assets.

The Group has clearly defined roles and responsibilities for all managerial positions. Its operating parameters are

monitored and controlled effectively through our SAP ERP software system. RAIN Group has established a global shared-service center in India to support SAP users across its global facilities. This enables effective utilisation of SAP for implementing efficient internal controls and timely reporting of financial and operational information.

8. Human Resource Development and Industrial Relations

RAIN Group employs more than 2,400 people directly and indirectly through our subsidiaries across the globe. The Company believes that the quality of our employees is the key to its success and is committed to providing necessary human-resource development and training opportunities to equip employees with additional skills to enable them to adapt to contemporary technological advancement and evolving workplace requirements.

Our employee-development efforts also included the implementation of a Safety Training Observation Programme (STOP™), which focuses on ways to address unsafe acts and recognise people who act and work safely. Our learning-management system plays an active role in standardising and digitisation of a few processes that are crucial to various work functions, such as administration, documentation, tracking and reporting of the various learning-and-development and training programmes for employees.

Industrial relations during the year continued to be cordial, and RAIN Group is committed to maintaining these relations through effective communication, meetings and negotiation.

9. Safety and Environmental Compliance

We continuously seek to improve safety and reliability at all our production facilities. Our production facilities have been awarded ISO certifications for maintaining quality- and environmental-management standards. These certifications demonstrate RAIN Group's efforts in ensuring high product-quality standards and compliance with environmental laws and regulations.

2022 was another important year in our safety journey, as our commitment to workplace safety resulted in the third consecutive year that our Rain Carbon subsidiary achieved a total recordable injury rate of less than 0.2.

Our production facilities also have been awarded ISO certifications for energy-management systems. We follow a systematic approach in achieving continual improvement

in performance, including energy efficiency, energy security, and energy use and consumption. In addition, our production facilities have been certified for compliance in international occupational health and safety management.

Prevention of safety-related incidents is one of our highest priorities. We have an extensive safety programme, which includes formal training for all employees, preventive measures such as pre-job safety analyses and a system aimed at identifying risks, taking corrective actions and preventing incidents. We regularly conduct internal audits of this safety system. Our management team has implemented a structured process for handling, monitoring, documenting and learning from near-miss incidents. We have taken stringent measures to reduce the number of recordable injuries Company-wide, and the monetary incentives of most employees are linked to fulfilling the Company's safety targets.

10. Statutory Compliance

The Managing Director makes a declaration at each Board meeting regarding compliance with provisions of various statutes after obtaining confirmation from all the operating plants across all subsidiary companies within India and abroad. The Company Secretary ensures compliance with SEBI Regulations and provisions of the Listing Agreement and with the guidelines on insider trading for prevention of the same.

11. Cautionary Statement

Statements in the Boards' Report and the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and Indian demand/supply conditions, finished-goods prices, feedstock availability and prices, cyclical demand and pricing in the Company's principal markets, changes in government regulations, tax regimes, economic developments within India and the countries within which the Company conducts business and other factors such as litigation and labour negotiations. The Company is not obliged to publicly amend, modify or revise any forward-looking statement on the basis of any subsequent development, information or events or otherwise.

On behalf of the Board of Directors
for **Rain Industries Limited**

N. Radhakrishna Reddy **Jagan Mohan Reddy Nellore**

Managing Director

Director

DIN: 00021052

DIN: 00017633

Place: Hyderabad

Date: February 27, 2023