



# “RAIN Industries Limited Q2 2019 Earnings Conference Call”

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RELATIONS**

**Moderator:** Ladies & gentlemen, good day. And very warm welcome to Earnings Conference Call of RAIN Industries Limited to discuss the company's Financial Results for Second Quarter of Fiscal Year 2019. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ryan Tayman – Vice President, Global Treasury from RAIN Industries Limited. Thank you and over to you, sir.

**Ryan Tayman:** Thank you. Good evening, everyone. I welcome all the participants to the Second Quarter 2019 Earnings Conference Call of RAIN Industries Limited. Speakers on today's call are Jagan Reddy Nellore – Vice Chairman of RAIN Industries Limited; Gerard Sweeney – President, RAIN Carbon Inc; and T. Srinivasa Rao – Chief Financial Officer of RAIN Industries Limited.

During the call, management will be referencing and discussing a slideshow presentation which is available for viewing on our website at [www.rain-industries.com](http://www.rain-industries.com) in the Investor Relations section. We recommend viewing this presentation while listening management's discussion.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature that could be affected by certain risks and uncertainties. The company's actual results could differ materially from such forward-looking statements.

Now, if you could turn to Slide #3, I would request Jagan to provide you an update on key developments within RAIN Group. Over to you, Jagan.

**Jagan Reddy Nellore:** Thank you, Ryan. A very good evening to all. During the second quarter, we began to see a return of our business to levels that most observers would consider normal for our company. Consistent with the expectations that we laid out during our last call; EBITDA improved to Rs. 4.5 billion up from Rs. 3.6 billion in the previous quarter. The increase was largely driven by increased volumes in all the segments. At the same time, the performance of our carbon calcination operations continues to be impacted by falling prices, as well as the ongoing pet coke import restrictions in India.

Referring to the Slide #3, on the carbon side of our business:

I would characterize the period as a cleanup quarter. Revenues for the segment were Rs. 278 million, higher than in the first quarter. Though there was an increase in volumes by 13% and the appreciation of US dollar against rupees by negative 3.7%, overall revenue increased marginally by 1.3% due to continued decline in CPC prices. The good news is that during the quarter we were able to flush out most of the remaining high cost GPC inventory that has been a drag on our carbon segments' profitability for the last three quarters. This was in line with

expectations. And with the high cost inventory out of our system, we are now well positioned to achieve more normalized margins going forward. The impact on the CPC business was partially offset by an increase in volumes in our coal tar-based carbon products, primarily related to demand from existing customers.

Turning to advanced materials:

We continue to build on the improvements in sales margin, and lower raw material costs that we began to see during the first quarter of fiscal year of 2019. In particular, second quarter demand was strong for our engineered products, driven by seasonality in our sealer based products, and our specialty coatings used in the lithium ion batteries, energy storage and other applications. This was partially offset by reduced demand for other coating products that are used by the steel and graphite electrode industries, which are being impacted by weak demand for their products. Petrochemical products are supported by strong demand in the fuel market and our petro-based resins enjoyed solid demand. However, the positive momentum was offset by the decline in automotive sales in China, Europe, the UK and Japan, which is impacting demand for raw materials that we produce for tire manufacturing, aluminium production and adhesives.

Cement business performance improved due to increase in volumes and realization across all markets except Andhra Pradesh, Orissa and Kerala. However, with the onset of the good monsoon season, and all the major dams reaching their full reservoir capacities, we expect there will be bumper harvest, which should give strong impetus to the rural economies. This combined with the strong focus by the newly formed government towards housing and pending irrigation projects should result in strong demand for cement starting fourth quarter 2019.

With this business update, I will not turn over the call to Gerry to take you through the industry and other business updates on slide for 4, Gerry.

**Gerard Sweeney:**

Thank you, Jagan. Good evening, everyone. It is a pleasure to speak with you all once again. On Slide #4, we see some shifting of global aluminium production volumes outside China to other Asian countries as a result of slowing demand. Although LME aluminium prices remained range bound around \$1,800 per metric ton during the quarter, the lower cost of alumina and other raw materials enabled most smelters to improve their overall profitability. Global aluminium stocks remain steady at roughly 60 days of consumption, which seems to be a comfortable level for the industry. Demand outlook for aluminium remains strong at 1.5% globally, excluding China; and 2% in China itself. This demand is mainly being driven by the increased production of electric vehicles, which on an average consume 30% more aluminium than a standard car. We also anticipate higher usage of aluminium in non-electric vehicles to facilitate weight reduction needed for improved fuel efficiency standards. We are finally seeing a capacity ramp up by North American smelters due to increasing demand for aluminium and the import tariff protection levied under Section 232 on primary aluminium imported into the United States. The increased production of primary aluminium, as well as improved vehicle sales contributed positively to incremental demand for all our carbon products.

Moving on to Slide #5, we are evaluating various options for minimizing the impact of restrictions on the import of pet coke into India. Based on last year's decision at the Supreme Court on pollution related matters, the company remains restricted on imports of GPC to produce at full capacity. We are still working on getting an allocation of GPC import for the shaft calciner project coming on stream this year. Our calcining facility in Vizag is one of only two calciners in India equipped to scrub at least 90% of sulphur from its air emissions. And our new vertical-shaft calciner under construction in the special economic zone will be similarly equipped. We recently filed a petition with the honorable Supreme Court of India to clarify the requirement for Indian calciners to have Flue Gas Desulphurization equipment which can scrub a minimum of 90% of sulphur from its air emissions. And also seeking the clarification on the allocation of GPC to the new vertical-shaft calciner under construction in a special economic zone. Pending legal resolution of our petition, we continue to pursue other alternatives of procuring anode grade GPC from Indian refineries, and also commercializing our patented proprietary technologies by using non-anode GPC and other materials in producing CPC. With these initiatives, we expect to minimize the loss of production volumes for our existing CPC, and the new CPC plant. At the same time, we are expanding our North American sales directly to end consumers, since blending in India is no longer a viable option. It is taking some time to pivot and change our sales channels, and we expect these direct sales to continue to increase during 2020. We remain hopeful that a positive outcome will be achieved, but continuing to work on alternative plans and research to potential options to optimize operations at both our plants.

Moving on to Slide #6, regarding our major capital projects. As mentioned, we are nearing completion of our vertical-shift calciner in India. The new plant is expected to commence operations during the fourth quarter of 2019. Once it is fully operational, the shaft calciner will provide our company with additional capacity, lower production costs, and another quality of CPC in our portfolio of CPC products to meet customer requirements of improved density and the anticipated growth in aluminium demand in one of our fastest growing geographies. With regards to HHCR project, we will be celebrating the first step in a phased commissioning of our new Hydrogenated Hydrocarbon Resins facility in Germany this Thursday, the 15th of August. When this plant achieves commercial production during fourth quarter, it will become the cornerstone of our advanced materials business. Our NOVARES pure water-white resins will be part of a portfolio of products that are essential to today's cleaner, faster and lighter 21st century applications. The facility's strategic location in Western Germany offers European customers a shorter and more cost-effective supply chain for their hydrogenated resins and other advanced materials, currently imported from Asia, especially China. Tariffs stemming from the trade dispute with the United States have left many Chinese products shifting to the European market. We also expect this state-of-the-art facility to open doors to new markets in certain high growth areas for us.

In a related move, we recently announced plans to close our Uithoorn resins plant in the Netherlands by the end of March 2020. This closure is unfortunately necessary due to eroding

profitability for hydrocarbon and C9 aromatic resins, particularly for the printing inks and adhesives areas. We are consolidating our resins and modifier sales into our Duisburg Germany facility and into our new hydrogenated resins plant. Duisburg facility is undergoing a \$10 million modernization to enhance the quality and reliability of production going forward. These investments in the plant closure will allow us to optimize production costs and improve our profitability. Our transition plan also includes expanded technical service and product development teams to ensure that customers have uninterrupted and locally produced supplies of high quality DCPD C9 resins based on newly developed proprietary technology.

Before I turn the call over to Srinivas, who will take you through the second quarter financials, I would like to reiterate comments from our call in May. Specifically, the fundamentals of our business remain strong. And the raw material that we produce will be essentially ingredient for a growing number of products and industrial application for years to come. Moreover, our financial condition is good with adequate liquidity and we are prudently investing resources to grow and strengthen our carbon and advanced materials businesses over the long-term. Finally, as I mentioned during our last call, our EBITDA levels are trending towards the expected range after the sales disruption experienced in India due to the regulatory changes last year. We remain focused on managing our balance sheet and balancing our investments in cash generation to effectively manage leverage and liquidity, while preparing for what we see as a very bright future.

With that, I will now turn the call over to Srinivas who will take you through the consolidated financial performance of RAIN. Srinivas, over to you.

**T. Srinivasa Rao:**

Thank you, Gerry. Good evening, everyone. It is a pleasure to speak with you today. In the second quarter of 2019, RAIN achieved consolidated net revenues of Rs. 33.2 billion compared to Rs. 37.7 billion in the second quarter of 2018, a decrease of Rs. 4.5 billion or 11.9% decrease. This resulted from a decrease in revenues of Rs. 4.5 billion or 17.1% from our carbon segment, and Rs. 0.6 billion from our advanced material business, offset by Rs. 0.6 billion or a 25.4% increase in revenue from our cement segment. RAIN consolidated adjusted EBITDA decreased by Rs. 2.4 billion compared to the prior year due to decrease in carbon segment by Rs. 2.8 billion, and offset by increase in cement segment by Rs. 0.4 billion and slight increase in advanced material segments. Both carbon and advanced media segments continue to be impacted by our high value inventory compared with the lower selling prices, as well as ongoing softness in the global aluminium production and sluggish Chinese economy and the pet coke import restrictions in India.

Now turning to the next slide on carbon segment performance. Revenue from our carbon segment business was Rs. 21.6 billion for the quarter ended June 30, 2019, compared to Rs. 26.1 billion for the same period last year. During second quarter of 2019, the average blended realization decreased by 11.5% due to change in market trend, further affected due to unfavorable impact from depreciation of euro against Indian rupee by 2.1%, offset by appreciation of US dollar against Indian rupee by 3.7%. The drop in CPC prices was primarily

driven by reduced price in the Asian market and price pressure in North America. Our global sales volume in the carbon segment decreased by 6.3%, mainly due to decrease in CPC volume by 12.2%, and other carbon products by 4.8%, offset by increase in coal tar pitch volumes by 14.3%. Overall, due to lower volumes, and a decrease in realization of CPC and CTP, the revenue from carbon segment decreased by 17.1% during second quarter of 2019, as compared to last year. The carbon segment continues to be impacted by pet coke import restriction in India, impacting the ability to compete with the Asian market, and resulting in under-utilization of our US calcination plants.

Turning to next slide on performance of advanced materials. Revenue from our advanced material segment was Rs. 8.7 billion for the June 2019 quarter, as compared to Rs. 9.3 billion for the same period last year, a decrease of Rs. 0.6 billion. During second quarter of 2019, sales volume decreased in engineered products by 13.3% and resins by 5.7%. Naphthalene derivatives and petrochemical intermediate remained unchanged. Volume decreases were related to our specialty binders due to weakness in the graphite industry and in resins business due to weakness in the adhesive industry. During June 2019 quarter, the average blended realization decreased by 2.1% along with unfavorable impact from the depreciation of euro against Indian rupee by 2.1%, partly offset by appreciation of US dollar against Indian rupee by 3.7%. The decrease in petrochemical intermediates was driven by a reduction in the oil-related prices. Naphthalene Derivates average prices were higher due to changes in customer mix on account of eliminating some lower-priced sales which had little impact on volumes.

Moving to the next slide on cement business. During second quarter of 2019 there was a favourable trend in sales volumes, an increase of 17.3% in our cement business. Most of our markets such as Telangana, Tamil Nadu, Karnataka, Maharashtra and Pondicherry had increased volumes. But they were partially offset by decrease in volumes in Andhra Pradesh, Orissa and Kerala. Sales realization increased by 6.9% during June 2019 as compared to last year. Due to these reasons, the revenue from cement business increased by 25.4% and EBITDA from the segment has increased by about Rs. 0.4 billion. We are working towards reducing cost at our plants by various efforts, the largest of which was installation of the waste-heat recovery power plants at our Kurnool and Nalgonda facilities to enable the plant to produce about 7 MW and 4.1 MW of electricity respectively from the waste gases generated in the manufacturing process. All the electricity generated by these units are internally consumed. In addition to this, cement mill modernization in Kurnool plant is under implementation to increase the capacity of the cement mill from 50 tonnes per hour 155 tonnes per hour, and also contributing by reduction of the power consumption. On the positive side, the increased market demand in the state of Telangana, Tamil Nadu, Karnataka, Maharashtra and Pondicherry is anticipated to continue throughout the year and due to infrastructure and housing projects initiated in these states.

Moving to the next slide on the debt position. At the end of second quarter of 2019, our total debt was US\$1,089 million, which includes US\$48 million of working capital debt. We

incurred capital expenditure of Rs. 5 billion, (or US\$72 million) during the first half of 2019, which includes \$36 million spent on our two major expansion projects under construction, HHCR project in Germany and vertical-shaft calciner project in India, as well as expenditure for other expansion projects. Net cash used in financing activities is Rs. 3.9 billion during first half of 2019, which includes Rs. 1.7 billion net flow towards repayment of borrowings, and the balance Rs. 2.2 billion is towards interest payments. The company ended the quarter with a net debt position of US\$956 million and net leverage ratio of 4.2X based on the LTM June 2019 adjusted EBITDA. We believe the company has adequate liquidity to meet requirement of funds for CAPEX projects, interest expense and regular operations for the foreseeable future.

Finally, finance costs during June 2019 were Rs. 1.1 billion, approximately same as compared to last year. Though there was a reduction in the working capital borrowing within current quarter, the decrease in interest cost was offset by increase in exchange rate. Our average borrowing cost stood at 5.6%. We expect net interest expense to remain stable as the floating-rate portion of our long-term debt is tied to **the EURIBOR**, which is still negative.

With that, I will now turn the call over to the operator to start the Q&A session.

- Moderator:** Thank you very much. We will now begin the question and answer session. The first question from the line of Nagraj Chandrasekar from Laburnum Capital Advisors. Please go ahead
- Nagraj Chandrasekar:** My first question is, are we now looking at a tough case for Indian CPC production and margins, i.e. will production volumes not go further down below this? And how are we placed in terms of sourcing GPC for the new vertical-shaft plant that will come up by the end of the year and what utilization which can be adhered?
- Jagan Reddy Nellore:** We have been allocated the raw material for our existing plant, that will meet for this year till March we have enough raw materials for the existing plant. And for the new plant also there was some confusion regarding to some judgment we received some time back. So, we could not get allocation of any tonnage for that. But we have gone to Supreme Court to seek the clarification and we are hoping that we should get such clarification in next few weeks. And hopefully after that they should give us the increased allocation. But there are a couple of other initiatives we are working on, one is actually we have started procuring raw material from the local sources. And we will be using an alternate raw material for which we have received environmental clearances also. So, we will be announcing that shortly now once we start that. So, with all these steps we are reasonably confident that the existing plant as well as the SEZ new plant will have adequate raw materials for operations.
- Nagraj Chandrasekar:** Thank you. And in the carbon products overall, CPC margins sort of normalized in the range of \$60, \$70 per tonne that we have seen during 2017 and is this a sustainable margin now and what is the comparative outlook on carbon products overall?

- Jagan reddy Nellore:** While we don't give future outlook, but we can say that we are coming back to our normalized margins. I cannot give you a comparison over here, but if you see our average margin over the last couple of years or so, barring the last three quarters we do expect to come back to our normalized margins between CPC and GPC.
- Nagraj Chandrasekar:** And what is the progress on the US lawsuit we faced earlier in the year regarding to the storm water contamination?
- Jagan Reddy Nellore:** That is still under progress and we have filed documents. But at this point of time we are pursuing it but we do not expect much impact from that. But it's still on the discoverystage. But we think the impact should not be very much because our sales during that period was very negligible or minimal in state where they have filed the law suit.
- Nagraj Chandrasekar:** Just a follow-up on the first question, is the new source from local refineries, GPC local refiners where you said of deploy raw material, what is the impact on production or conversion cost versus using imported GPC?
- Jagan Reddy Nellore:** The cost should not impact much because what we do is we actually use creative blending process to ensure the impact of the cost is not much. Though the cost of locally procured material is little bit higher, but we do blend that off with our existing imported material. So, we plan such a way that our overall blend cost is more at a manageable level. Thank you.
- Moderator:** Thank you. The next question is from the line of Gunjan Kabra from Niveshaay Investment Advisors. Please go ahead.
- Gunjan Kabra:** Sir, in the con-call Koppers highlighted that there is an availability of coal tar has decreased because of less production in steel blast furnace. So, is there a possibility of increasing cost in the coming quarter?
- Gerard Sweeney:** I am not sure I got all of the questions, I heard it's related to coal tar?
- Gunjan Kabra:** Yes. Sir, the availability of coal tar has decreased because of decreased production in steel furnace, as highlighted by the Koppers. So, is there a possibility of increasing costs in the coming quarter?
- Gerard Sweeney:** Yes, good question. The availability of coal tar has been affected by essentially the downturn of the steel markets as we have seen, and a reduction in overall steel production. Which to remind those that are not familiar with our sourcing is essentially integrated steel mills produced tar from their internal metallurgical coke production. And while we are seeing a reduction in the global output due to the impact on steel, we are seeing very minimal impact to our traditional tar sources at this point. We could see it happening going forward, and we have discussed it as a company. We have predominantly long standing contracts, but we also have availability of alternatives to us throughout Europe and South America that we have access to additional tar



streams, from both existing contracts and sources that we can go to. So, we are not concerned about rising prices going forward. And if we do see increasing prices, we do have the ability to essentially pass that through on a quarterly basis to our end consumers. So, it's nothing that we feel that's going to impact us going forward in the third or fourth quarter in any material way.

**Gunjan Kabra:** Okay, thank you. So, my next question is, how much cash can we expect to come from sale of the Moundsville plant which was there in the result notification

**Jagan Reddy Nellore:** Can you please repeat the question please?

**Gerard Sweeney:** The question Jagan was, how much cash can we expect to come from the sale of the Moundsville plant site?

**Jagan Reddy Nellore:** See, basically we had completely written-off that investment and we will actually disclose it as and when the sale is completed. We have the agreements but we will disclose it once the sale is concluded. So, it should be latest we expect to close that in less than two months.

**Gunjan Kabra:** So, are we selling only the plant or the entire land, entire facility are we selling, so what are we doing?

**Jagan Reddy Nellore:** We are selling the entire facility, because it costs us money as we do not operate it, to maintain that for the security and for the utilities and other things it does cost almost \$500,000 - \$600,000 for us every year. So basically, we want to avoid that. So, with the sale we will be able, that will also be a saving apart from the realization we are going to receive from the buyer.

**Gunjan Kabra:** Sir, is it to a calciner or whom are we selling it to?

**T.Srinivasa Rao:** No, it is not for a calciner, we will be selling to a third-party, he will be using for alternative purposes.

**Jagan Reddy Nellore:** Actually, they are going to use it as the barge facility for import, for local handling of materials, not the plant, they will not be using the plant say. Thank you.

**Moderator:** Thank you. The next question is from the line of Pratiksha Daftare from Aequitas Investment Consultancy. Please go ahead.

**Pratiksha Daftare:** Sir, my first question is around GPC prices. In the last call you indicated that the GPC prices were in the range of \$175 for a high-quality grade. If you could just give a sense about how these prices have panned out now and how much are we in terms of the high cost inventory we have mentioned most of the inventory, do we expect some impact in the ongoing quarter as well? Yes, that's my first questions. And the next question is on advanced material, we have

sequentially seen a significant jump in the EBITDA margins for this segment, just wanted to understand reasons for such increase in margins, and whether these margins are sustainable?

**Gerard Sweeney:** On your first question, we continue to see the low Sulphur GPC prices coming down. And much to our pleasure, they are coming down still shortly. We believe that they will level off in a range of \$100 to \$125 or so. So, that's a very, very welcome relief that we are seeing will help us return to more normalized margin levels that Jagan was referring to earlier. On the advanced materials, the higher margins is really the result of a shift in our product portfolio to higher margin customers, what we have been focused on as we transition with the closure of the Uithoorn plant as well as the completion of the hydrogenated resins plant, we are transitioning our customer base and eliminating low and loss leading products, in particular in the printing ink, and the rubber industries. So, as we eliminate those, its supporting essentially the profitability and the unit margin of the portfolio products at advanced materials. So, what you will see actually going forward is that as we bring up the HHCR projects you will see us move away even further, we will move away from C9 resins platform that exclusively C9 platform into our NOVARES pure, which again should be a margin upgrade in our products going forward. That, however, will be a 2020 event, but since you asked that question, I just wanted to give you a little bit more insight of where we will be going in the advanced materials area moving forward.

**Pratiksha Daftare:** All right. And if I can have just one more question on cement, just wanted to understand how have the cement prices been in the ongoing quarter, so Q3 calendar year '19, you have seen a significant margin jump in Q2, but do we expect the similar thing to continue for the rest of the year?

**Jagan Reddy Nellore:** Yes, basically the prices will be normally less than Q3 because of the monsoons and lower demand. But we expect prices to return back to the normalcy starting Q4, and the demand also to improve quite a bit. Because after 10 years for the first time we are seeing good monsoons here as well as all the reservoirs filling. So, this is actually quite good news for the rural economy.

**Pratiksha Daftare:** It I could just have some, what kind of realization fall are we expecting to see in Q3?

**Jagan Reddy Nellore:** In this quarter maybe, we are thinking the prices will normally fall by about maybe 3%, 4%.

**Moderator:** Thank you. The next question is from the line of HR Gala from Finvest Advisors Private Limited. Please go ahead.

**HR Gala:** I just wanted to know, you said that we will be inching towards the normalized margin in carbon products because of fall in GPC price and other initiatives that we are taking. So, what is the range you have in mind from the current level of 12.7% that we have earned?

- Jagan Reddy Nellore:** See, we normally don't give any forecast basically on how the future will be. But normalized means, you should be able to calculate from if you just see our last two to three years of performance, you should be able to get a good idea on that.
- HR Gala:** Yes, so last two to three years if I see, calendar year 2016 we had 19%, calendar year 2017 we had 22.8%, and in CY18 it came down to 17.7%. And now in H1 we have got 12.2%. So, it's very difficult to find out what will be the normalized level.
- Gerard Sweeney:** I think the way to look at our carbon products is, if you look at percentage we have a variation over the years that you just mentioned. It is very hard to follow if you look at it as a percentage, okay, because prices were up very high in 2018, and yet we had very high margin. If you look at the first three quarters, we had very profitable and high margins comparatively speaking. When we talked about it from the CPC perspective, and the CTP perspective, we look at a standard margin of \$60 to \$80 per tonne is a fairly standardized margin for us. So, if you look at it in those terms versus percentages, that gives you a little clearer idea of what a target is for that versus the percentages. I realized how that can get confusing with the fluctuating prices over the last several years.
- HR Gala:** Okay, that's very helpful. My second question pertains to our advanced material, we have seen significant improvement that just means a 13% increase in sales, our EBITDA has increased almost by 100%. So, to what extent this lithium ion chemicals would have helped?
- Gerard Sweeney:** Really if you are looking at quarter-on-quarter, which I think is what you are looking at there. You have the element, you certainly have the seasonality of our coatings business, meaning our tar sealers, as well as some seasonality that we see related to the lithium ion battery aspect as well. And added underlying piece of all of that as well, is just a lower cost in those products in general, that we have been able to achieve by pushing down our raw material price. I hope that's helpful.
- HR Gala:** Okay. Sir, can we sustain this level of margin going ahead in advance materials?
- Gerard Sweeney:** Well, the margin we are hopeful to maintain, the volumes will still be somewhat, we still have seasonal volumes. Spring is always our strongest volume for the tar sealers and the specialized carbons for us, second and third quarter. So, we will still see seasonality. But yes, on margin we are fighting to maintain that.
- HR Gala:** Okay. Sir, just last question from my side. In carbon products we have degrown the volumes by about 4% in first half. What is your expectation for the full year? Will there be any volume growth or it will be how?
- Gerard Sweeney:** Sorry, I missed? It just broke up a little bit. Can you repeat the first part of your question again?

**HR Gala:** Yes. Sir, in carbon products in first half we have degrown our volumes by about 6%. So, I just wanted to know for full year what is your expectation? Will it be a flat year? Will there be volume growth, or it will be reduction ?

**Gerard Sweeney:** Now you are talking about 2018 versus 2019 year-over-year?

**HR Gala:** Yes.

**Gerard Sweeney:** I think year-over-year, well, I don't have specific figures for last year in front of me to compare. What I would say is we are going to be up in volumes from the coal tar pitch from the distillation business, we will be up in volumes year-over-year, and the CPC will be down. And the CPC is obvious enough, because we are still battling that ruling that happened during the second half of 2018 as far as the pet coke ban and the CPC import ban that impacted the business. So, we are still emerging from that, which greatly impacted us in the first half. And so I think the volumes will be down in CPC year-over-year.

**Moderator:** Thank you. Next question is from the line of Arvind Goradia from Niveshaay Investment Advisors. Please go ahead.

**Arvind Goradia:** Sir, my first question is, on the front of our coal tar pitch business. Koppers has highlighted that they are continuously facing low profitability, but they had one quarter where the profitability had gone up. And we have seen our realization go down, but our volumes have gone up. So, is there a strategy that we follow to capture more market share from Koppers to bring down the market share of that player and increase our market share?

**Gerard Sweeney:** As far as market share is concerned, the market shares growth and work was primarily being done in prior years, in all honesty. And that's not to say that I am addressing whether it's Koppers or anybody else, but we had a specific strategy to gain market share and leverage essentially the world-class, size and leverage of our facilities. We consciously said, look, a fuller utilization of our existing distillation facilities allows us to have a lower cost base. And so we have consciously driven at that over the last couple of years. What we feel, and I guess to take your questions a little further is, the difference that you are hearing between our tar sourcing and the fact that we have the ability to really feed our facilities from a number of options throughout Europe and North America. And we can take even from South America in large shipment sizes because of the economies of scale that we have in our plant and the proximity to water. So, by all rights, that allows us to maintain a cost competitive tar supply, that other competitors may be more reliant on the local market and therefore have less of an ability to be creative in the way that they source.

**Arvind Goradia:** So, are the current realizations on CTP side is what is our conscious strategy that we will be following in the coming quarters?

**Gerard Sweeney:** Yes, we will maintain the strategy we have been executing really over the last five years.

- Arvind Goradia:** Okay. Another part is about Netherlands facility that we are shutting down, what can be the cost of the closures that we will be estimating going forward in the coming quarters?
- T. Srinivasa Rao:** Arvind, we are still making an assessment, because the decision was taken only beginning of August, we need to evaluate all the provision we need to make to shut down the facility. We can tell you that in the Q3 financials.
- Jagan Reddy Nellore:** But just to give, whatever it may cost us, at this point of time we are not sure what is the amount, but we expect the payback for the same should be about 3.5 - 4 years. So, whatever really if it costs, the payback should be 3.5 to 4 years.
- Arvind Goradia:** Okay, got it. Another part of the cash flow side I wanted to understand, so cash flow statement we see in H1 we have made around from operations some Rs. 850 crores to Rs. 900 crores of cash that has been already generated. So, I wanted to understand that in the lowering price regime also we managed our cash flows pretty well in terms of inventory management. So, is that something which we can guide on the cash flow per year that is our internal target that we are wanting to achieve, and how we plan to basically go forward and maybe reduce debt or maybe use those cash flows to maybe streamline more of our operations on the advanced material or the new site in Germany that we are coming up with, what exactly is the plan of the management?
- Jagan Reddy Nellore:** As you can see, because of our reduced working capital, because of the falling prices, there has been accumulation of cash into the system. But we use most of our cash for our capital expenditures, because we have not been borrowing any additional funds for all the new CAPEX. So, once they are online then basically all the cash that will be accrued actually can be used as a debt repayment or for other purposes.
- Arvind Goradia:** Any timeline we have in our mind or we will be just yearly taking a call in terms of the opportunity in business that we have? Are we working the timeline to reduce the debt or partly offset the debt in the scenario where we are seeing a lot of corporates doing actually, and that's one thing that most of us as an analyst community is hoping for, for our company, because on operating front we see the recoveries happening, so is the final gift that we all want, is there debt reduction, is there any timeline on that that we can have?
- Jagan Reddy Nellore:** It's not the timeline, you have to see what is the rate of return, our average cost of interest now is about 5.6%. Whereas when we actually build these new projects, the rate of return is in the range of about 12% to 18% or 20%. So, there is a better reward by actually investing in CAPEX and actually improving our ability to sustain our profitability going forward and become a leader in whatever we are doing. So, we think that is more important. And so while debt repayment is important, but at the same time we are actually working on improving our bottom-line. So, overall, our debt leverage ratio should actually come down going forward. Thank you, please.

- Moderator:** Thank you. The next question is from the line of Kalpesh Gothi from Valentis Advisors Private Limited. Please go ahead
- Kalpesh Gothi:** Sir, most of my questions have been answered. One question regarding the high cost of inventory, are we seeing the similar kind of inventory to be booked in Q3?
- Jagan Reddy Nellore:** No, most of the high cost inventory has already been consumed, and we do not expect that there will be an impact of the high cost inventory in the coming quarters.
- Kalpesh Gothi:** Sir, one more thing, on the closure of the Netherland plant, what was the cost of closing the plant? And did we book in Q2?
- Jagan Reddy Nellore:** As we have said, we will be announcing in the next one or two months, once we have more clarity. But as we said, the payback period for whatever the shutdown cost is, will be over 3.5 to 4 years.
- Kalpesh Gothi:** Okay. And what was the loss they have booked in last year from this particular plant?
- Jagan Reddy Nellore:** It is not a loss making unit, it does produce EBITDA positive. But the thing is, there has been reduction in demand for those products because they make mostly printing ink. So, we are operating the plant at much lower capacity, so we can actually produce whatever we are producing there at Duisburg plant in Germany and also at our new plant, the HHCR plant. So, there was no reason for us to operate one more plant. So, that was the reason why we decided to shut down the plant.
- Moderator:** Thank you. The next question is from the line of Rajvir Anand, an individual investor. Please go ahead.
- Rajvir Anand:** Just a couple of slightly longer term ones. So, firstly just building on one of the questions you got earlier. Mr. Reddy, when you look at this business over the next three to five years, is there a target leverage level that you are aiming to get the company towards, either in terms of absolute net debt or leverage ratio?
- Jagan Reddy Nellore:** Yes, our target is to be at about 2.5.
- Rajvir Anand:** Net debt to EBITDA?
- Jagan Reddy Nellore:** Yes, 2.5 times EBITDA.
- Rajvir Anand:** Okay. That's great. So, good to hear the clarification. And can you just guide us towards what your capex plans then to reach those levels might be for 2020 and 2021?

- Jagan Reddy Nellore:** At this time, basically after completion of the current projects we don't have any major CAPEX plans at this point of time. So, as we mentioned earlier, our maintenance capex is somewhere about \$65 million, \$70 million per annum. So, hopefully with the completion of the projects, both the shaft calciner as well as the HHCR project, and the Duisburg expansion, thereafter we don't expect major CAPEX unless something really comes which is good, which we are not sure. But at this point of time we are not contemplating any new projects.
- Rajvir Anand:** Okay, got it. Thanks. And just finally, can you give us some color? This is related party transactions in the last couple of annual reports we are seeing with a company called Arunachala Logistics. So, can you just give us some color on what's happening over there? Why are we specifically entering in these transactions?
- Jagan Reddy Nellore:** Okay. See, basically we have two cement plants, one is in Nalgonda, one is in Kurnool. So, basically what happened was, these are very remote location and we actually tried, this happened almost about 15years back. We were actually trying to get trucks to go to the cities from there to our end markets, and there were nobody placing the trucks. So, we actually used to give advances to the truckers and then basically they were actually going into losses, they were actually moving away the trucks because of non-return cargo, return loads and other things. So, finally, we actually decided to start something on our own. So, this was about 15 years back, we started as a captive logistics service. So, what we do is, every year we actually call for tenders, and based on that, and we have agencies like E&Y who does the transfer pricing. And actually we see that though it is a related party, our prices are at least 15% to 20% lower than the market availability. So, we do follow the very strict code of all related party transactions, but the issue is we have no other option, it's not that we want to do it, but we are not able to find trucks. And this is the same case not only for us but the majority of cement companies in Andhra do that.
- Rajvir Anand:** Understood. So, just in view of that and considering I think that you run a fairly clean and tight ship at RAIN, would you consider making the financial statements of this entity public for the investors to see?
- Jagan Reddy Nellore:** See, there are several people in it, a couple of our family members own something, but there are other outside investors also in that, it's not just only our family members. We are informing it as a thing, but we do make, because our board does go through this process of logistics study, so basically on the transfer pricing we have E&Y, an outside agency doing this and helping us on a regular basis to ensure that we are strictly complying with the transfer pricing regulations.
- Rajvir Anand:** Okay, got it. Just a thought from my side. So, if you can consider it that will be great. Congrats on a good set of numbers. I think in a tough environment you guys did a great job. Thank you.
- Moderator:** Thank you. The next question is from the line of Vivek Asodariya , an individual investor. Please go ahead.

- Vivek Asodariya:** First of all, congratulations for a good set of numbers. My question is related to like more general business related to balance sheet. As you are aware that goodwill contains almost like 50% or 60% of our net worth, I am just wondering as our first initial plan was to import the CPC and blend it in Andhra Pradesh in our Indian facility, and then again export that CPC to other countries. So, now that that plan has got collapsed due to some restriction, so did we have done any existence in goodwill? Because it is affecting right, because whatever we assume what will the cash flow from this type of arrangement, it is not realizing now.
- T. Srinivasa Rao:** Actually, the goodwill what you are seeing in the consolidated balance sheet of RAIN Industries is on account of acquisitions that was done in 2007 and 2013. The Rutgers operations in Europe and calcination business in US that we acquired. By having the blending facility, we invested some money, but it is not that it becomes useless. As and when the regulatory changes take place, we can continue to use the blending facility in India. It was built within the Vishakhapatnam plant itself, we did not build somewhere else. And apart from blending the CPC, we can also use the same facility for blending up our raw materials. So, from that point of view, we can't conclude that this asset is not carrying any value. Hence it doesn't have any impact on the goodwill numbers that you see in the balance sheet. And complying with the auditing standards, all the assets that are acquired by the company, constructed by the company will be tested for impairment. That is a duty cast on the auditors and they will carry out the test every year. And if there is any impairment, like during 2014 we shut down the Moundsville facility, and we have written-off whatever is the value of those assets. Now, when we shut down these Netherlands facility also, the auditors will test for impairment and any provision required to be made will be made in the books.
- Vivek Asodariya:** No, actually, I was not saying it is useless. I was just saying is there any kind of requirement or adjustment needed to do?
- Jagan Reddy Nellore:** No, it is not required because blending was not our original concept. Actually, when we acquired the company, blending was not part of our overall strategy. Subsequently we came up with the impact of not blending does not impact the overall goodwill. Thank you.
- Vivek Asodariya:** Got it. So, just a following question. Just wanted to get your thoughts, like we have made more acquisition inorganic growth like in HHCR Carbon and Rutgers in Europe, so are that acquisition performing with our expectation line or it is a better or worse, if you can just share some thoughts?
- Jagan Reddy Nellore:** I would say better than our expectations, at least while I agree that the last one-year performance of the calcination was somewhat weak because of various external factors. But I think overall I think we are quite happy with our both the acquisitions.
- Vivek Asodariya:** Okay. And just the last question. So, is there any update on our, means, we have filed a petition regarding CPC in Supreme Court, so is there any update or something you want to let us know?



**Jagan Reddy Nellore:** No, we expect the case to come up in the next two to three weeks, and we will keep you updated. Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraint that will be the last question for today. I will now turn the conference over to Mr. Jagan Reddy Nellore for closing comments.

**Jagan Reddy Nellore:** Thank you, Nirav. As we discussed earlier, during the second quarter we saw earnings trending positively, strengthening demand for our carbon distillation and advanced materials products. And perhaps most significant, flushing out of our remaining high cost GPC inventories. We are now focused on the startup of our advanced materials plant in Germany, and the commercial rollout of our NOVARES pure water-white resins, as well as the completion of our vertical-shaft calciner in India and the successful resolution of our pet coke situation in India. While our financial performance during the past several quarters have been disappointing, the women and men of RAIN have worked tirelessly to drive out our costs, improve efficiencies, develop new products and markets and safely complete our two major capital projects. All told, I believe that we have taken necessary and appropriate steps to help secure the long-term sense of RAIN and return the company to profitability as our second quarter results indicate. Thank you for joining us on today's call. And we look forward to speaking with you again in November to discuss the commercial operation of our advanced resins plant, and the pending startup of the shaft-calciner. Have a good day and please be safe. Thank you.

**Moderator:** Thank you very much. On behalf of RAIN Industries Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.