



RAIN INDUSTRIES LIMITED

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May 17, 2019

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

Sub: Transcript of Earnings Conference Call – Reg.
Ref : Scrip Code: 500339 (BSE) & Scrip code : RAIN (NSE)

With reference to the above stated subject, please find enclosed herewith Rain Industries Limited Transcript of Earnings Conference Call on Unaudited Financial Results for the first quarter ended on March 31, 2019.

This is for your information and records.

Thanking you,

Yours faithfully,
for Rain Industries Limited


S. Venkat Ramana Reddy
Company Secretary



“RAIN Industries Limited Q1 2019 Earnings
Conference Call”

May 08, 2019



**MANAGEMENT: MR. JAGAN REDDY NELLORE – DIRECTOR AND VICE
CHAIRMAN, RAIN INDUSTRIES LIMITED
MR. T. SRINIVASA RAO – CHIEF FINANCIAL OFFICER,
RAIN INDUSTRIES LIMITED
MR. GERARD SWEENEY – PRESIDENT, RAIN CARBON INC.
MR. RYAN TAYMAN – VICE PRESIDENT, GLOBAL
TREASURY**

Moderator: Good evening and welcome to RAIN INDUSTRIES LIMITED earnings conference call for the First Quarter 2019. I will now turn the call over to Ryan Tayman, Vice-president – Global Treasury, RAIN.

Ryan Tayman: Thank you, Good Evening everyone. I welcome all the participants to the First 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 of RAIN CARBON INC., and T. Srinivasa Rao, Chief Financial Officer of RAIN INDUSTRIES LIMITED.

During the call, management will be referencing and discussing a slide show presentation which is available for viewing on our website at www.rain-industries.com in the Investor relations section. We recommend viewing this presentation while listening to 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 and I would request Jagan to provide an update on key developments within RAIN Group, over to you Jagan.

Jagan Reddy Nellore: Thank you, Ryan. A very good morning to all. Results for the first quarter once again illustrated the resilient nature of RAIN. The resiliency of the business has never been more evident than over the past several quarters, as we have endured extreme commodity volatility and absorbed the shock of new regulatory constraints.

Referring to slide 3, Consistent with expectations communicated last quarter, although results were down from a year ago, we saw an incremental improvement from the fourth quarter with EBITDA of ₹3.6 billion, which we believe represented a cyclical trough. In particular, revenues continue to be impacted by weakness in our calcination business, where pricing remains soft and volumes reflect weakness in certain end markets and the impact of the ongoing pet coke import restrictions in India. For example, global aluminum demand was particularly weak, especially in China, but we continue to view this as temporary.

On the cost side, we are working through the older, higher-priced inventory that began to negatively impact margins toward the end of the third quarter of CY18. In addition, actions such as the curtailment of raw materials purchases initiated in the fourth quarter as well as an ongoing rationalization of the business and a consolidation and closure of plants in Germany that will reduce costs, are helping improve efficiency and expand margins. Consequently, EBITDA increased roughly ₹1.2 billion sequentially from the fourth quarter. And, although EBITDA in the first quarter was a little more than half that compared to Q1 2018, we anticipate

that a better balance between selling prices and materials costs will take effect during the second quarter. As a result, we expect EBITDA to improve in the second half of the year.

In the Carbon business, revenues decreased 6.3% year-over-year. The decrease was primarily due to the pet coke import restrictions and increased price competition in Asia from excess CPC coming out of China as a result of reduced aluminum demand and production in China.

In the Advanced Materials business, we began to see a return to more normalized conditions during the first quarter. Raw material costs stabilised, and demand increased for key materials such as our resins for Europe's premium tire market and PETRORES®, an engineered product used in specialty applications such as lithium-ion batteries and energy storage. Those improvements were offset by continued weak demand by the Chinese automotive industry and reduced sales volumes for our environmentally friendly CARBORES® binder, as we chose to protect profit margins.

We are committed to complete the new water-white resins facility in the coming months. Once commissioned, this plant will become the cornerstone of our Advanced Materials business, and the "NOVARES pure" resins produced at the facility will be part of a portfolio of raw materials that are essential to cleaner, faster and lighter 21st century applications.

Our team is putting determined efforts towards achieving revenue growth and improved margins. Last year, we realigned our product portfolio to put an increased focus on Advanced Materials. The purpose of the realignment was to carefully evaluate which products – old and new -- are best suited to meet the evolving needs of our customers and society. We are very pleased with the progress being achieved to enhance the results of our Advanced Materials operations and the steps being taken to improve the productivity and cost-effectiveness of our manufacturing facilities.

With these business update, I will now turn over the call to Gerry to take you through industry and other business updates on Slide 4 ... Gerry ...

Gerard Sweeney:

Thank you Jagan, and good evening everyone. It is a pleasure to speak with you all again. Following the 2017 ramp-up in smelting capacity, 2018 was a year of aluminum oversupply and a corresponding drop in prices. While there is virtually universal agreement that over the long-term, demand for aluminum – outside of China -- will increase at a rate of approximately 2-3%, a slowdown in China's transportation, packaging and electrical industries has created a short-term pause in demand growth, and a weaker overall pricing environment. Nevertheless, we anticipate a rebound in global aluminum production and a corresponding improvement in CPC and Pitch volumes and pricing. And as we indicated during our last call, much of the growth is expected to occur in India and the Middle East, which are natural and freight logical markets for RAIN.

We remain very optimistic about this part of our business. Demand for aluminum is expected to increase for the foreseeable future, as it continues to gain traction as the metal of choice in a growing number of applications, thanks to its high-strength, durable, lightweight, corrosion-resistant and recyclable nature. As the world's second-largest producer of calcined petroleum coke and largest producer of coal tar pitch – both irreplaceable ingredients in the anodes required to produce aluminum – RAIN is well positioned to continue its role as a key supplier to the industry.

In terms of our Distillation business, we believe that we have moved through the bottom of the cycle for our coal tar-based products, and we see a number of bright spots going forward. For instance, continued softness in the Chinese economy should result in lower coal tar production by China's steel industry, and we are capitalizing on this opportunity with additional shipments of coal tar pitch from our European operations into the Middle East.

I am also pleased to report that we are making significant progress on the construction of our vertical-shaft calciner in India and hydrogenated hydrocarbon resins plant in Germany – both of which are due to be completed during the third quarter. Both the projects will be marginally over budget due to increased material costs on account of changes in technology and labor costs. Consequently, after investing over \$140 million in growth and maintenance capital projects in 2018, we have committed approximately \$150 million this year to complete the Vertical Shaft Calciner and Hydrogenated Hydrocarbon Resins plant, in addition to other projects.

The new plant in India will provide additional capacity to meet the anticipated growth in aluminum demand and will lower our cost of production in one of our fastest-growing geographic markets. The European resins plant will open doors to new markets in certain high-growth areas and bring new life to some of our established products in more traditional industries.

Now, let's turn to slide 6 on the pet coke import restrictions in India. We expect that our calcination business will continue to be impacted in the near term by unresolved issues related to the India pet coke import restrictions. During the quarter, the Indian Directorate of General Foreign Trade (DGFT) allocated certain additional GPC import quantities available from surrendered quantities by other calciners. RAIN's GPC allocation increased to 554 thousand tons for the period April 2019- March 2020 which allows the existing plant to run at 78% of capacity and began procuring GPC from domestic Indian refineries to further increase capacity utilization potential. RAIN is filing a petitions to consider the new capacity addition as a separate allocation for RAIN and to permit RAIN to import CPC again under certain conditions. We hope the courts will resolve the issues in next few months.

Beyond the pet coke import restrictions in India, we are taking aggressive steps -- unprecedented steps in the history of RAIN -- to restore our legacy calcination business to a world-class competitive position. To drive this effort, Jagan Nellore has stepped down as

Managing Director of RAIN INDUSTRIES LIMITED, and the two of us will devote our combined energy to rationalizing our business activities, especially calcination, so that this business is once again performing at a level we know it can. At the same time, we will be working together to solve our remaining issues in India and ensure the successful completion of the shaft calciner project. While the pet coke import restrictions in India and commodity price volatility represent potential headwinds, our underlying business drivers are improving. We are investing for the growth opportunities we see and to strengthen RAIN over the long term. Consequently, this will be a year in which we will be balancing our investment and cash generation to effectively manage leverage and liquidity, while preparing for what we see as a very bright future.

I feel good about the upcoming year. In a highly competitive and rapidly changing world, we are fully committed to doing what's necessary to return our business to profitability so we can continue to create value for our customers, communities and shareholders.

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

T. Srinivasa Rao:

Thank you, Gerry, and good evening everyone, it is a pleasure to speak with you today. In the first quarter of 2019, RAIN achieved consolidated revenue of ₹31.8 billion compared to ₹32.9 billion in first quarter of 2019, a decrease of ₹1.1 billion or 3.4%. This resulted from a decrease in revenue of ₹1.4 billion, or 6.3%, from our Carbon business segment and ₹0.2 billion, or 2.0% from our Advanced Materials offset by ₹0.5 billion or 20.0% increase in revenue from our Cement business segment.

RAIN's consolidated adjusted EBITDA decreased by ₹3.1 billion compared to the prior year substantially with a decrease in carbon business by ₹3.0 billion and advanced materials by ₹ 0.3 billion offset by ₹0.2 billion increase in cement business. As expected, recovery was seen but the performance of our businesses continued to be impacted by our high-value inventory compared with lower selling prices, as well as ongoing softness in global aluminum production, a sluggish Chinese economy and the pet coke import restrictions in India.

Now turning to the next slide on Carbon business performance ...Revenue from our Carbon business segment was ₹21.3 billion for the quarter ended March 31, 2019, compared to ₹22.8 billion for the same period last year. During Q1 CY19, the average blended realisation decreased by ~0.5% after considering the favorable impact from the appreciation of the US Dollar and the Euro against Indian Rupee by ~9.4% and ~1.1% respectively. The drop in CPC price was primarily driven by reduced prices in the Asian markets and price pressure in North America due to the delayed start of smelters.

Gross sales volumes in carbon business decreased by 5.9% mainly due to decrease in CPC by 8.5%, Other Carbon products by 3.6% and CTP by 0.8%. Overall, due to lower volumes across all carbon products and decrease in realisation of CPC, the revenue from Carbon segment

decreased by ~6.3% in Q1 CY19 as compared to Q1 CY18. The decrease in volumes was partly driven by the timing of the export shipments compared to prior year, reduced demand from TiO₂ industry and the import restrictions in India.

Turning to next slide on the performance of Advanced Materials ... Revenue from our Advanced Materials business segment was ₹ 7.7 billion for the quarter ended March 31, 2019, as compared to ₹ 7.8 billion for the same quarter in 2018, a decrease of ₹ 0.1 billion, or 2.0%. During Q1 CY19, Sales volumes increased in petro chemical intermediates by ~10.7% whereas it has decreased in resins by ~20.5% and naphthalene derivates by ~3.2%. Engineered products sales volumes were flat. Resins volumes were down primarily related to continued weakness in the European automotive industry, where most of our resins-unit products are sold.

During Q1 CY19, the average blended realization increased by ~3.7% along with the favorable impact from the appreciation of the Euro against the Indian Rupee by ~1.1%. Price decreases in engineered products were primarily related to our CARBORES® specialty binder. The decrease in price of petrochemical intermediates was driven by a reduction in 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. Resins prices were up due to a better mix of customers.

Moving on the next slide on Cement business During First Quarter CY19, there was a favorable trend in sales volumes in our Cement business. There was an increase in volumes in most of our markets such as Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, Maharashtra and Pondicherry, partially offset by a decrease in volumes in Odisha, Kerala and Goa. Overall, our increase in volumes by 19.9% and sales realizations by ~0.1% during Q1 2019 as compared to Q1 2018. Due to these reasons, the revenue from Cement business increased by ~20.0%. EBITDA from the Cement segment increased by ₹0.2 billion.

We are working towards reducing costs by various efforts, the largest of which was the installation of the waste heat recovery power plants at our Kurnool and Nalgonda facilities to enable the plant to produce approximately 7MW & 4.1MW respectively of electricity from the waste gases generated in the manufacturing process. All the electricity generated is consumed at the plant itself. In addition to this, we have upgraded a cooler in our Nalgonda Plant at a cost of ₹ 156 million to achieve energy efficiency. Further, as discussed in the previous slides, we are undertaking technology upgrade at our Kurnool facility to improve the efficiency.

On a positive note, we have seen increased market demand in the states of Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, Maharashtra and Pondicherry as compared to the previous quarter, and we anticipate this demand continuing throughout the year due to infrastructure and housing projects.

Moving on the next slide on debt ... At the end of the First quarter of 2019, our Gross Debt was \$1,098 million which includes \$47 million of working capital debt. Capital expenditure of ₹2.5

billion (or ~\$35 million) during 2019 includes \$19.3 million spent on our two major expansion projects under construction; a HHCR Project in Germany and a Vertical Shaft Calciner in India and expenditure for other expansion projects.

Net cash used in financing activities of ₹2.1 billion during 2019 includes ₹1.8 billion of net outflows for the repayment of borrowings. Balance ₹0.3 billion is toward interest payments. The Company ended the quarter with a Net debt position of \$ 931 million and net leverage ratio of 3.5X based on LTM Q1 CY19 Adjusted EBITDA. With \$151 million of cash on the balance sheet and unused credit limits of \$166 million, the Company is comfortably placed to meet its obligations and continue to make the required investments to meet market demands.

Finally, Finance cost during Q1 CY19 is ₹ 1.1 billion, a decrease of ~4.0% compared to ₹1.2 billion in Q1 CY18. The amount in Q1 2018 included a deferred finance costs charge off because of refinancing activities completed during that period. Our average borrowing cost stood at 5.3%. 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 for Q&A session. Operator

Moderator: Thank you. Ladies & gentlemen, we will now begin the question-and-answer session. The first question is from the line of Arvind Kothari from Niveshaay. Please go ahead.

Arvind Kothari: My first question is related to our net debt that we have repaid this quarter. I believe our bonds are quoting at less than their par value. So what was the strategy of not buying back the bonds and repaying the European debt that is also a small portion. So what is your strategy going forward of that?

And my second question would be relating to our CPC, we have gone through a few reports that still forecast that the CPC prices are still falling down in the month of April also, and they are hovering around \$310 maybe. So, how confident we are that our GPC cost would fall commensurately to give us a bit of margin? Because if you look at our numbers, I guess CPC might not have positively contributed in terms of margin this quarter, if I am not wrong. So going forward, which quarters we expect the CPC to positively contribute to the EBITDA, I would like to understand?

T. Srinivasa Rao: Arvind, with regard to your first question on the reduction in the debt, as you could see in the slide that was given on the debt position, a substantial part of debt reduction is only from the working capital loans. We will be borrowing the working capital loans based on the business requirements. We have two major debts what we have is the term debt, which is in the form of a high-yield bond repayable in April of 2025, \$550 million, which is a fixed coupon bond. Then we have a Euro currency denominated Term Loan B which is payable in January 2025. There are no scheduled repayments against these euro currency denominated term loan. So, whatever debt reduction you have seen it is only in the repayment of working capital.

And the second part of your question of debt reduction is, why we should not use our cash to buy back the bonds. As we have two major expansion projects in the pipeline, the management does not want to spend any money towards repayment of the debt. After completion of these projects, any excess cash that is generated will be either used for further expansion or if there are no further expansions, used to reduce the debt. But at this time we are not looking at any new expansions unless we complete the current expansion projects. Currently we will neither approve any expansion projects nor repay the debt.

Arvind Kothari: So, how much will be the amount that is still left to be spent on these two expansion projects? What amount is still pending for the expense to be done, if I didn't get an idea?

T. Srinivasa Rao: I think Mr. Gerry Sweeney has already indicated that for the calendar year 2019 we will be spending around \$140 million to \$150 million. Not only these two expansion projects we need to complete, but we also need to complete certain recurring maintenance CAPEX which is around \$60 million to \$65 million. And the waste heat recovery plant in cement business and the modernization of the cement mill also is in pipeline where we need to spend another \$5 million.

Arvind Kothari: So, how much have we spent in the first quarter of this \$150 million?

T. Srinivasa Rao: First quarter we spent about \$19.3 million. Total is about \$35 million we spent, out of that \$19 million is for these two projects and about \$16 million for other various miscellaneous projects. Maybe the second question on the prices, Mr. Gerry Sweeney will talk about fall in the CPC prices.

Gerard Sweeney: Yes, we have seen since really second half of 2018 we have seen consistently falling prices with this year with the weakness that we have seen in the aluminum price and also slowdown in aluminum production in China. We have really seen prices fall off from mid last year \$400 level into now the \$270 - \$280 range for second quarter of 2019. So, with the price collapsing we are rushing to reset our raw material prices again.

Arvind Kothari: Okay

Moderator: Thank you. We will move on to the next question that is on the line of HR Gala from Finvest Advisors. Please go ahead.

HR Gala: Hi, congratulations to the team for giving a resilient performance. Continuing with the earlier question, currently from the S&P global players we understand that CPC prices, some quotes are at even to \$275, \$290, \$300. So going ahead do you really expect that CPC prices could soften to that extent?

Gerard Sweeney: The CPC prices have softened to that extent.

- Jagan Reddy Nellore:** So, basically what happens is, once the CPC prices soften the green coke prices also soften. One more thing is, green coke prices more or less are dependent upon CPC prices, but the floor level is somewhere around the fuel level, because the other option instead of using GPC for calcinations is to use for fuel. And now the fuel prices are also kind of weak. So, we do expect that it to come down.
- HR Gala:** Can you give an indication as to what are the current prevailing GPC prices??
- Gerard Sweeney:** The best quality prices are maybe \$175. And the cheap qualities are, the lowest qualities are \$80 to \$100.
- HR Gala:** Okay. And CPC prices, do you really expect that it will be reduced to so much about \$300 level as it is reported in flats?
- Gerard Sweeney:** Yes, I mean, this is what happens when a market comes off a high, it tends to fall up pretty substantially. It's nothing different than other trends we have seen in past cycles in CPC.
- HR Gala:** Okay. Now sir from this HHR project which will be commissioned by third quarter, what kind of incremental revenue we can expect over a period of time at optimum capacity utilization?
- Jagan Reddy Nellore:** You are referring to which project?
- HR Gala:** HHR project.
- Jagan Reddy Nellore:** It should generate about €100 Million.
- HR Gala:** That is the revenue we are expecting?
- Jagan Reddy Nellore:** Revenue, yes.
- Gerard Sweeney:** Yes, when it is in full production.
- HR Gala:** Okay. So when do you think we can reach that level of revenue?
- Jagan Reddy Nellore:** That I cannot tell you, we can tell you that it is going to commence operations in third quarter. And we will try to bring it up as fast as possible. But we cannot give you any dates on when it can reach any particular level.
- Gerard Sweeney:** We are only figuring, we have only structured it and our expectation is, ramping up over three years.
- HR Gala:** Okay. And the EBITDA margin in that particular product should be much higher than what we earned in CY17 in the Advanced Material of about 17% type, am I right?

Gerard Sweeney: Yes. That the profitability of the business should be greatly improved with the HHCR, as we replace lower valued and low margin products in our portfolio.

HR Gala: Okay, that is good. Sir, any other major concerns on the demand side do you think will continue for a while because of the softness in European market, Chinese market, etc.?

Gerard Sweeney: I think that's a good question. I mean, we had concern in the second half of last year when we saw a little worldwide scattered weakness. We saw the industrial and economic weakness in China, and that seems to have stabilized. And we expected it to get better from here, not worse. We did see weakness in certain sectors in Europe, certainly in the automotive sector. But so far this year that seems to have corrected itself. And then the fourth quarter weakness, we have seen with a lot of speculation about the recessionary trend in the US economy has been completely halted and reversed now, with strong GDP growth in the US in the first quarter, strong jobs reports coming out. And I daresay all except perhaps the tech sector being strong earnings reports. So, we are fairly bullish that things should remain economically strong going through 2019.

Moderator: Thank you. Our next question is from the line of Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.

Dhruv Muchhal: Sir, a question on the volumes, your CPC volumes are down by about 15% and 8% QoQ, YoY in 1Q. So what should we look at for the full year, any guidance on that?

Gerard Sweeney: We don't provide forward projections. But what I will say is, the clear comparison there, don't forget that with the Indian pet coke ban we are not allowed to import CPC from the US into India, which was a major part of our strategy. So that was roughly 250,000 tons a year that we had been moving. What now we are attempting, and quite honestly scrambling to place in other places worldwide. So easily that amount of reduction quarter over quarter is just indicative of the impact of that that we have not been able to replace to this point.

Dhruv Muchhal: So, you did about 350 KT, 360 KT in 1Q, so should we think 350 KT to 400 KT will be your quarterly run-rate, assuming the situation does not change on the ban?

T. Srinivasa Rao: Yes, Dhruv, if you see the year as a whole, we have 1.65 million is what we have done in CY18. Like Mr. Gerry just mentioned, about 250,000 tons is what the US is supplying in India. So 1.4 should be broadly okay.

Gerard Sweeney: Yes, 1.4 is probably the number.

Dhruv Muchhal: Sure. Sir, secondly, you mentioned the CPC pricing is down to about \$270 to \$280, if you see in 1Q the average pricing is about \$350, so that's about \$70 decline. How do you see the GPC

pricing to that extent, has it declined, come off to that similar amount or can we see some margin pressure in the subsequent quarters?

Gerard Sweeney: Well, we just talked about where the GPC pricing is. The key for us is pushing out the existing inventories that we have, that we are still working of, even we will be working of in the second quarter. So that's really key for us. We are not terribly concerned about restoring margin beyond that, because with GPC prices anywhere from low grades \$80 to \$100, and the better grades \$170 - \$175, this really leaves us the opportunity for margin which are blending.

Dhruv Muchhal: So, broadly the current margins will sustain if once the inventory is out, the high cost inventory is out?

Gerard Sweeney: Yes.

Dhruv Muchhal: Sir, just the last question. You mentioned that for the shaft calciner project, you are petitioning the Supreme Court. If for example, it is approved, what could be volume jump because of this? I think the bigger part will come in CY20, so if you can give the CY20 number?

Gerard Sweeney: It depends on demand, but 2020 I think probably the best we can look at with the new setup would be a 50% in the early stages ramping up to 80% throughout the year. So, I guess should look at that way. Early on we wouldn't push it, we would kind of run at 50% and then establishing ourselves probably up the second half of the first operating year to 80%.

Dhruv Muchhal: Sure. Just to refresh my memory what is the total capacity here? 370?

T. Srinivasa Rao: 370,000 tons, 0.37 million tons.

Dhruv Muchhal: Thank you

Moderator: Thank you. We move on to the next question that is from the line of Vikram Sharma from Fulton Capital. Please go ahead.

Vikram Sharma: Who are the major players in hydrogenated hydrocarbon resin?

T. Srinivasa Rao: You are looking at customers or the competitors?

Vikram Sharma: Competitors.

Jagan Reddy Nellore: BASF is one of the large producers, Arakawa, is another player.

- Gerard Sweeney:** Competitors in Europe, or as Jagan stated, but there is excess demand in Europe that is currently being imported. So it is a bit of a negative availability market that's being supplied locally from Asia.
- Jagan Reddy Nellore:** And also, we will be supplying the materials in liquid molten form instead of pellets, so they can directly use the material without actually re-heating it.
- Vikram Sharma:** Okay. And sir my second question is, is there a possibility of drought again in Rhine River?
- Jagan Reddy Nellore:** See, Rhine River actually last year had problem but next year at this point of time we don't know. But we are actually making alternative arrangements for the same. And actually, we have our new barge ship, you can call it, which can actually be used during low levels of Rhine...
- Gerard Sweeney:** The Rhine has been an issue for us, as Jagan mentioned, we made alternative arrangements to be able to avoid the river, quite honestly, on trucks where necessary. But hopefully the Rhine won't be anything prolonged, it usually returns to normal levels as we move through the middle of the year.
- Moderator:** Thank you. The next question is from the line of Anubhav Sahoo from MCA Research. Please go ahead.
- Anubhav Sahoo:** Hi Sir, A couple of questions. One is, given the import restriction quota assigned to us in the CPC business, what is the capacity utilization we are looking at for the India business? And also, if you can elaborate, at what capacity utilization we could be running our US plant given the restriction, and if we don't see the business margin?
- Gerard Sweeney:** The capacity utilization from India we are going to seek and we are targeting 100% capacity utilization on the plant, that is our allocation as well as buying some domestic product to fill in around it. Outside of India, in the US we do have one plant idle currently, which is representative of the shortfall because we are not exporting to India.
- Anubhav Sahoo:** So that plant has a capacity of around 150,000, this is what you mentioned, the US plant?
- Gerard Sweeney:** It has 230,000.
- Anubhav Sahoo:** 230 Okay. Given this current context, last call you did mention about change in business model, how to deploy and how to get US plant working and how to deploy those CPC. So there any traction on that, are we making some changes on that?
- Gerard Sweeney:** Yes, we are. From a model change perspective, I think you are referring to the fact of accepting that for the foreseeable future we are not going to be able to ship CPC product to India. So, we are going back, increasing volumes to our existing customer base, as well as pushing tons into

new customers to make up for that. But it's a process, to this point we had limited success. We are hopeful of being able to achieve perhaps 50,000 tons, 60,000 tons of additional sales within this year. But it's a process, in this business you don't just change strategies midstream and then expect that you are going to be able to, especially in a falling demand environment expect that you are going to be able to have great success.

Anubhav Sahoo: Got it, sir. Sir, your presentation mentions that the alternatives of calciners in India is to find alternative raw material process and also methods to lengthen imported raw material volume. Can you please elaborate, I mean, what are those sources and methods probably you would be looking at and probably this is why we are still asking 100% utilization for India business?

Gerard Sweeney: Yes, there are both low sulfur and high sulfur opportunities to source in India. And so we are looking at that. And the experience we have with our ice technology allows us to employ some methods that are not necessarily standard for the use of shot coke in the calcination process. So, there are cokes available within India that are helping us to supplement the allocation that we have from the DGFT for the year.

Anubhav Sahoo: Okay, got it sir. Thank you. Thanks for taking my question.

Moderator: Thank you. The next question is from the line of Kalpesh Gothi from Valendus Advisors. Please go ahead.

Kalpesh Gothi: Most of my questions have been answered, two questions. Sir, you spoke about the high cost of inventory, how much is there in the books now?

Jagan Reddy Nellore: We expect our high cost inventory to be over in this quarter, in the current quarter.

Kalpesh Gothi: Okay sir. And one more question, you spoke just now about HHR has excess demand in Europe which is met by the imports. So can you quantify how much in terms of volume?

Jagan Reddy Nellore: No, We cannot say that. But they do import from China and other places, actually. But there is shortage of HHCR products in Europe.

Gerard Sweeney: Yes, from importing the resins, I would say our best estimate would be in the neighborhood of about 10,000 tons. The market itself is deficient by about 10,000 tons as it stands today.

Moderator: Thank you. The next question is from the line Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra: Sir, wanted to get a sense on the Indian CPC scenario after import ban quota. So from the industry reports I understand that as the Chinese CPC prices are declining, so is there any competitive pressure that we face and how is this import quota being planned out? Are we able to run the operations like before smoothly, like what is the scenario right now?

- Gerard Sweeney:** The Chinese CPC situation is, look, natural to any market scenario when your domestic market is not pulling enough demand from you, you are going to seek export opportunity. And that's taking place in China. They lead the market up when demand was very strong in China and they are leading the market down now. We believe that we are beginning to see the bottom of pricing in China because their raw material prices have stopped declining and actually some of them are inching up. We will be watching it very carefully over the coming month to see how that continues. But there is no doubt that the Chinese work on more slim margins than we do, pay more for their GPC product, and as such, they will be very sensitive to the balance between GPC and CPC products.
- Gunjan Kabra:** Okay, Platts have actually highlighted in their report that RAIN has idled its Gramercy CPC Plant, so is that true or is it temporary because we are not able to source CPC for the blending facility? And what is the status that of the US restarts that we can get incremental volumes from there end?
- T. Srinivasa Rao:** See, at this point of time we are not able to import CPC for blending purpose in India because of the restrictions by the Supreme Court order. But otherwise, the domestically produced CPC, we should be able to maintain the previous year volumes whatever we have delivered.
- Gunjan Kabra:** And how much, like what is the status of the restart of the US smelters that we can expect in the next quarter, I mean, in the next half year?
- Gerard Sweeney:** See, we are still seeing, albeit slow, we are still seeing restarts in the US that actually helped us to pick up some additional volume in North America to help replace the fall off in our ability to ship to India. But we are still seeing US capacity come back online and ramp up, although it has been much slower than originally anticipated.
- Gunjan Kabra:** Okay, thanks sir.
- Moderator:** Thank you. Our next question is from the line of Akhilesh Kumar from Add-Pro Technologies. Please go ahead.
- Akhilesh Kumar:** Thank you and good evening to everybody. Gerry, I have a question regarding the same scenario because of China what we are seeing the pressure on the CPC. I understand that in US we have a 10% tariffs on Chinese imports of carbon materials, including CPC and GPC. And the plan is right now to that to increase it to 25% from coming side. How do you see that will affect the pricing?
- Jagan Reddy Nellore:** We don't import GPC actually from China, and even US smelters also are not importing any GPC from China, or CPC from China. So that should not impact this increased tariff, it should not impact us or the smelters.

- Gerard Sweeney:** Yes, there is nothing in our CPC system that is impacted by any current existing or contemplated tariff action.
- Akhilesh Kumar:** Okay. I think I got it differently. What I was asking is, US is putting a tariff on the Chinese imports in US, so in that sense you should not be anticipating that Chinese import into the US will be reduced because of the tariff put on to them.
- Gerard Sweeney:** Yes, but there is very little to no import of CPC into the US anyway at this point. So, that doesn't give us an advantage.
- Jagan Reddy Nellore:** So, US is a large net exporter, means it is a very large producer of calcined petroleum coke, so there is no reason for China to come and compete, and I don't think they will be able to compete also.
- Akhilesh Kumar:** Okay. And one more question, recently there was another company Goa Carbon, has given the scenario where it says that Indian smelters are trying to import as much they can from their 500,000 Tons quota from China at lower price CPC. That's why the demand from Indian smelters are very less. And subsequent quarters it might increase once they exhaust their entire quota of imports. How do you see that turn out?
- T. Srinivasa Rao:** See, aluminum smelters in India are capped to import only up to 500,000 tons of CPC, they cannot import anything beyond that.
- Akhilesh Kumar:** So, would that impact the prices in the later quarters when they won't be able to import and only when Indian CPC producers like us will be the only players where they can buy it?
- T. Srinivasa Rao:** Actually, the limits that are set up by the Supreme Court, the 1.4 million tons of GPC and 0.5 million tons of CPC was based on the actual imports for the last two or three years. So, barring the new expansion, it should meet the requirement. And maybe the court might review the position in the future.
- Akhilesh Kumar:** Okay, thank you. And one last thing, if I can ask, for the new expansion vertical shaft project from Vizag, for this year import quota has been already closed. So when we want to, we expect to apply for that import for CPC for that plant?
- Jagan Reddy Nellore:** See, we expect actually, we are in discussion with the authorities that there is an error in allocation this year. So, we expect to challenge the quotas. So we do expect the new units also to be given some additional allocation, probably after the court holidays, vacations.
- Akhilesh Kumar:** Okay great. Thanks a lot.
- Moderator:** Thank you. Our next question is from the line of Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.

- Dhruv Muchhal:** Thank you. Can you just repeat the CAPEX number, I understand \$150 million is for projects, what is the total overall CAPEX for CY19? And some color for CY20 too, if you can.
- T. Srinivasa Rao:** \$150 million includes the maintenance CAPEX as well as the expansion CAPEX.
- Dhruv Muchhal:** So this is the full CAPEX for CY19?
- T. Srinivasa Rao:** Correct.
- Dhruv Muchhal:** Okay. And just some understanding on the US volumes which we are losing because of India. Now, if I understand correctly, this volume loss is only because the market is weak, if for instance aluminum improves, you will be able to place these volumes somewhere in the world, it is just the weakness in the market which is avoiding this, which is causing this volume loss, is that right? Or is it because the grade is something else and you will have to find that particular kind of user for this grade?
- T. Srinivasa Rao:** No, it is both the pet coke restrictions by the Supreme Court as well as the weak demand, both are contributing for the loss of volumes for the US plant. But some of the volumes we should be able to gain when the US smelters restart their operations in US.
- Dhruv Muchhal:** My point was, overall the market was already well, I mean, relatively balanced. Now, if you are losing volumes from India, you are selling the GPC volumes from India and some customer is buying from you. Now if these volumes are not available from India, that customer will have to buy it from somewhere else, so probably, I mean, why can't you supply directly from US market? Is it the grade is different or...
- T. Srinivasa Rao:** Based on the Chinese market is softening because of the low aluminum production increase there. Because of that whatever shortfall from RAIN volumes is there that is taken came from the CPC exports from China in to India.
- Gerard Sweeney:** What you are missing there is that we used to bring CPC over, that was an optimal production of low cost CPC from the US in order to be blended here in India. Then we were able to make a complimentary blend here in India and, make the most cost effective product that we could sell on. When you eliminate that ability to import and we just have to supply directly to the customer, we lose that competitive advantage that we have and now we are just going straight up against the availability from China, which is closer from a freight perspective. So, on apples-to-apples we are at a disadvantage because of the inability to import CPC.

Dhruv Muchhal: Okay, So, to understand it further correctly, so if US smelter market had to recover, the US aluminum production had to increase then you will be able to sell this volumes, of course not all the volume but a decent portion of it?

Gerard Sweeney: Yes, if it increases substantially enough that we can place all the volume, yes, that would be true.

Dhruv Muchhal: Because then the freight cost disadvantage will no longer be there?

Gerard Sweeney: That's right. And obviously we are freight advantaged in the US

Dhruv Muchhal: Freight advantage. Yes. Got it. Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Kumar, an individual investor. Please go ahead.

Abhishek Kumar: Thank you management for having a wonderful session for all of us. My question is more related to the strategic problem that the team is going to face in coming years. Alcoa and Rio Tinto have formed a joint venture with Canadian government to set up carbon free anode production. That would have material impact on the business model of the company? And how the company is trying to cope up with that, because if things come to that level, by 2024 lot many existing aluminum players would probably shift to the new technology. Is this a material impact to the business model or the company is considering it as more of an R&D effort at this point of time?

Gerard Sweeney: I will be as frank as I possibly can be on this. The inert anode nanotechnology, which they have now termed LSS, is not a new technology, it has been around for the last 20 years. It is not proven to be economically viable from a cost perspective. If you look at the announcements related to this, it's a very positive PR effort to talk about the environmental responsibility in the production of aluminum and trying to go to an inert anode type of technology. The interesting aspect of this is that if it were truly a breakthrough technology, you wouldn't see anybody sharing it with anybody else, I mean, why you have two aluminum major sharing it. And the lion's share of the investment in the R&D on it is coming from the governments, not from the companies themselves. With that said, I do believe that they are moving forward with this and they are trying to make it as commercially viable as they can in using it. And for companies in the future, that will say, look, we will pay more for more environmentally friendly technologies, which we are hearing a lot about is someone would be interested in that is someone who's technology partner in this like Apple with the iPhone for the 200,000 tons to 300,000 tons of aluminum they use a year in producing iPhones, iPads, and such.

There may be a scenario that if they can get it cost competitive enough, that this would be something that they'd entertain to pay more for that aluminum in order to be able to say, we have achieved this. As you know, Apple has been under a lot of scrutiny to make sure that they

are doing environmentally friendly things in the production of their products. That's been fairly public. So with that said, our feeling is that rather than this being something that truly threatens the viability of Carbon in the aluminum induction process, this is something that will be a small niche boutique industry going forward. But that the current process under which aluminum is made will still be what, 95% - 98% of aluminum will be made from worldwide. We think that if you just look at the annual growth of aluminum production that it far outstrips any threat that LSS technology or inert anode technology presents certainly over the next five years.

Abhishek Kumar: That's comforting, actually. But it's good that management is keeping a track of it in the sense that it's just that based on the premise that if the value is moving towards some other portion in terms of business model, our management is equally oriented towards moving to that piece. And in that way I hope that the management is doing a good job. Thank you.

Gerard Sweeney: Thank you.

Moderator: Thank you. Ladies & gentlemen, that was the last question. I now hand the conference over to Mr. Jagan Mohan Reddy for his closing comments.

Jagan Reddy Nellore: Thank you. After a turbulent 2018, we are beginning to see a return of cost, pricing and profitability to levels that most observers of our business would consider normal. Although, I believe it will take another quarter or two to get back to the position where we are again generating normal EBITDA. There are a number of signs that things are moving in the right direction. Among them, the flushing out of high price inventory from our Carbon and Advanced Material businesses, a gradual return to traditional spreads between raw material costs and selling prices, increasing global demand for aluminum and carbon-based raw materials that make 21st century products and applications possible, reduce interest expense, thanks to last year's refinancing and strong liquidity.

When you look at our projected CAPEX spending and tax and interest expense for 2019, you may well conclude that this will be a cash neutral year for RAIN. It is important to understand, however, that we will have maintained a cash neutral position, despite significant capital expenditures on our HHCR and shaft calciner projects, and the reduction of outstanding balance of working capital from our internal cash flows.

We are also taking the necessary and appropriate steps to secure the long-term strength and profitability of our company. In addition to producing the raw materials that make so many products that people rely on possible, the 2600 employees of RAIN have dedicated 2019 to completing major capital projects, rationalizing our production and logistics networks and updating our product offerings so that we are well positioned to drive future growth, create shareholder value, and ensure the stability of our company for years to come.

Thank you all for joining the call today. We look forward to speaking with you again in August.



RAIN Industries Limited
May 08, 2019

Moderator: Thank you. Ladies & gentlemen, on behalf of RAIN Industries Limited, that concludes today's conference. Thank you for joining us. And you may now disconnect your lines. Thank you.