Rain Industries Limited

(Formerly Rain Commodities Limited)

Q3 CY14 EARNINGS CONFERENCE CALL

MANAGEMENT:

MR. JAGAN MOHAN REDDY – MANAGING DIRECTOR, RAIN INDUSTRIES LTD

MR. SRINIVASA RAO – CHIEF FINANCIAL OFFICER, RAIN INDUSTRIES LTD

MR. GERARD SWEENEY – PRESIDENT & CEO, RAIN CII CARBON LLC

MR. HENRI STEINMETZ – PRESIDENT & CEO, RUTGERS GROUP

ANALYST:

MR. Kamlesh Bagmar, Prabhudas Lilladher

Moderator

- Ladies and gentlemen, good day and welcome to the Rain Industries Limited Q3 2014 Results Conference Call hosted by Prabhudas Lilladher. As a reminder all participants' 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 this conference please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kamlesh Bagmar from Prabhudas Lilladher. Thank you and over to you.

- **Mr. Kamlesh Bagmar – Prabhudas Lilladher**

- Good evening everyone, I welcome all participants to the Q3 2014 Conference Call of Rain Industries Limited. We have with us Mr. Jagan Mohan Reddy, Managing Director of Rain Industries Limited, Mr. Srinivasa Rao, the Chief Financial Officer of Rain Industries Limited, Mr. Gerard Sweeney, President and CEO of Rain CII Carbon LLC, USA, Mr. Henri Steinmetz, President and CEO of the Rutgers Group. We commence the call with opening remarks from Mr. Jagan Reddy providing an update on the recent developments at Rain Group. It will be then be followed by Mr. Srininvas Rao providing you the highlights of the financial performance during Q3 2014. Mr. Sweeny will provide an outlook for the CPC business and Mr. Steinmetz will provide outlook for other carbon products and chemical businesses. This will be followed by question and answer session where the management will answer the questions from the participants.

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

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

- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**

- Thank you Kamlesh. Good evening everyone and welcome to our 2014 Q3 Earnings Call. I would like to start my discussions with the consolidated performance of the company. During the current quarter Rain has achieved consolidated revenue of Rs. 29.7 billion, consolidated operating profits of Rs. 3.6 billion and consolidated net profit of Rs. 1.15 billion. The consolidated net profit on a sequential basis decreased by 7% from Rs. 1.24 billion in Q2 2014. While we have seen good recovery in cement business the fall in the net income is mainly due to lower contribution from chemical business. As expected we have seen strong recovery in cement business during the current quarter. On a sequential basis our cement volumes are down by 14% to 512 thousand tonnes, with the recovery in cement blended realisation by 24% to Rs. 227 per bag. Operating profit of cement business improved from Rs. 20 million in Q2 2014 to Rs. 206 million in Q3 2014. Average EBITDA per tonne of the cement business although still at low level recovered to Rs. 402 per tonne compared to Rs. 34 per tonne in Q2 2014.

- Although the market conditions continue to remain uncertain, the carbon business has delivered a reasonably satisfactorily operating performance with 2% improvement on a sequential basis. Operating profit of carbon division increased from Rs. 2,898 million in Q2 2014 to Rs. 2,949 million in Q3 2014, mainly due to normalisation of maintenance cost in Q3 2014 compared to higher cost in Q2 2014 and marginal increase in volumes from 785 thousand tonnes in Q2 to 813 thousand tonnes in Q3 2014. During this quarter chemical business has underperformed both sequentially and on Year On Year basis. Operating profits of chemical business has fallen from Rs. 874 million in Q2 to Rs. 462 million in Q3. Chemical business in Q3 2014 was affected mainly due to the lower performance in the resins and modifiers segment with fall in volume of about 4.5% compared to Q2 2014.

- To give you an update on strategic developments, we have successfully completed the Phthalic Andhydride expansion in Belgium on time and within the budget. Commercial production at this facility commenced on 6th October of this year and has been operating smoothly. As informed in our last call due to additional repair work to the existing steel structure, we expect a marginal delay in Russian project. As per the latest estimate the project would start operations from the second half of 2015, however we do not expect any major cost over runs due to this delay. As we all know one of the key advantages of Rain in carbon business is our 125 megawatts non-conventional energy generation through waste heat recovery. Inorder to further enhance our footprint in non-conventional energies we are evaluating the possibility of setting upto 22 megawatts solar power plant in the State of Andhra Pradesh. Considering that we have already possess land suitable for setting up a solar power plant in Anantpur District, we participated in the bids invited by Southern Power Distribution Company Limited of Andhra Pradesh and Eastern Power Distribution Company of Andhra Pradesh and have been qualified in the evaluation process. Post completion of detailed site verification and technical evaluation, we will execute the power purchase agreements. The estimated total cost for this project would be about Rs. 140 crores.

- Last month we witnessed a devastating cyclone with strong storms in the north coast of Andhra Pradesh. With the preemptive steps taken by the company Hudhud did not cause any material damage to the manufacturing facilities of Rain CII Carbon Vizag Limited, situated at Vishakhapatnam, Andhra Pradesh except some damage to the administrative building, storage facilities and inventories. This cyclone has resulted in temporary stoppage of operations at the facility. After thorough checking of all the equipments and completion of repair activities, RCCVL had restarted first kiln on October 26th and we expect to start the second kiln in a day. RCCVL has adequate insurance coverage for both asset damage and loss of profits due to shutdown of operations subject to general deductibles.

- Our CAPEX spending during 9 months ended September 2014 was approximately US$ 36 million which was below our budget due to delay in the Russian project. Overall for the full year the capital outflow would be US$ 20 million short of budget.

- Most importantly I am happy with the free cash flow generation during the current year. With the normalisation in the working capital and delay in Russian joint venture, we have generated a strong free cash flow of US$ 77 million for 9 months ended September 30, 2014.

- I would now request Srinivas to provide highlights of the financial performance during Q3 2014. Thank you.

- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**

- Thank you Sir. A warm welcome to all the participants. To highlight some of the key performance indicators on a consolidated basis I will provide you some highlights of the Rain Group in Q3 of 2014.

- Consolidated net revenues are Rs. 29,697 million during the current quarter, a marginal fall of 1% compared to Rs. 29,760 million achieved during the Q3 of 2013. Carbon product sales volume during the current quarter is 813 thousand tonnes, an increase of 12% compared to 726 thousand tonnes in the Q3 of 2013.

- Carbon sales volume increased during the current quarter mainly due to higher coal tar pitch sales, increase in pet coke trading volumes which was partly offset by lower CPC sales in the United States. While carbon sales volume increased by 12% due to fall in blended realisation and lower CIF base sales in our pet coke trading business and recovery in rupee carbon division revenue has reduced marginally by 1% in Q3 of 2014 compared to Q3 of 2013.

- Chemical sales volume during the current quarter is 81 thousand tonnes, an increase of 6% compared to 76 thousand tonnes in Q3 of 2013. While chemical sales volume increased by 6% due to change in product mix and appreciation of the rupee, revenue from chemical business has reduced by 5% in Q3 of 2014 compared to Q3 of 2013.

- Cement sales volume during the current quarter is 512 thousand tonnes, an increase of 8% compared to 472 thousand tonnes in Q3 of 2013. With the combination of increase in sales volume by 8% and increase in average realisation from Rs. 201 per bag in Q3 of 2013 to Rs. 227 per bag in Q3 of 2014. Cement revenues increased by 23% in Q3 of 2014 as compared to Q3 of 2013.

- Consolidated operating profit for the current quarter is Rs. 3,617 million, a marginal decrease of 3% compared to Rs. 3,739 million received during the Q3 of 2013. While the carbon division had delivered a marginal growth of 1%, cement division has delivered a strong recovery of over 100% growth in operating profits. This was offset by lowering operating performance in chemical business due to change in product mix and lower margins in the resins business.

- During the Q3 2014 the Group had a foreign exchange gain of Rs. 196 million as compared to foreign exchange loss of Rs. 194 million in the Q3 of 2013. The primary reason for foreign exchange gain in the Q3 of 2014 is strengthening of Canadian Dollar against the Euro partly offset by depreciation of Russian Ruble and Indian Rupee against the US Dollar.

- The finance cost during the current quarter is Rs. 1,489 million, a decrease of 4% compared to Rs. 1,559 million during the Q3 of 2013, this decrease is mainly due to translation impact of foreign currency interest costs.

- The effective tax rate during the current quarter is 30%, an increase of 13% compared to 17% tax rates during Q3 of 2013. The effective tax rate in the Q3 of 2013 was lower due to recognition of minimum alternate tax credit of Rs. 205 million in that quarter.

- Consolidated net profit during the current quarter is Rs. 1,147 million, an increase of about 32% compared to consolidated net profit of Rs. 866 million during the Q3 of 2013. The company achieved a consolidated EPS of Rs. 3.41 during the current quarter, an increase of 32% compared to consolidated EPS of Rs. 2.58 during the Q3 of 2013.

- The consolidated free cash flows for 9 months ended September 30th, 2014 is US$ 77 million which is net after spending about US$ 36 million for capital expenditure and about 80 million US dollars towards interest. As on September 30th, 2014 the company has consolidated debt of US$ 1,300 million including working capital debt of US$ 85 million. And the company is having cash and cash equivalents of about US$ 200 million, the net debt as on same date is US$ 1,100 million.

- With the existing cash and cash equivalents of about US$ 200 million coupled with undrawn revolver facilities of about US$ 183 million, the company is well placed to meet the debt service obligation and CAPEX projects in the pipeline. As you are all aware the major debt repayments are scheduled to start only from the Calendar Year 2018.

- Lastly, similar to last year to avail the tax benefits provided by the Government of India under the Finance Act 2014 the Board of Directors have declared an interim dividend of Rs. 1 per equity share, that is at the rate of 50% on face value of Rs. 2 per equity share fully paid-up.

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

- **Mr. Gerard Sweeney - President and CEO of Rain CII Carbon LLC, USA**

- Thank you Srinivas, good evening everyone, it is a pleasure to speak with you again.

- We have seen series of positive developments in last few months, which have raised the outlook in the global aluminium industry. There is strong price rally in the LME primary aluminium prices currently averaging around $2,000 per tonne as well as the steady reduction of the global metal inventory. Regional premiums are also reaching historic high levels in several areas consistent with growing demand. Demand in Europe is stable and demand in the United States remain buoyant led by the automobile industry. Continued substitution of steel in vehicles with lightweight aluminium is expected to boost aluminium demand in North America in the next several years. Approximately 2.3 million tonnes of capacity expansions in automotive sheet productions have been announced in the last few months. A major proportion of this around 1.8 million tonnes of production in US and Europe itself, this is adding demand to regions which are already in some deficit for primary metal.

- Base prices on the LME had shown resilient strength over the Q3 and into October with prices rising above $2100 per tonne during the period then retrieving and rallying again during October. The market seems to be comfortable with prices above $2000 metric tonne for aluminium which supports continued production growth. Amid deficit in metal production outside China, regional premiums are expected to remain strong in 2015 and 2016. These regional premiums remain a major part of the All-in aluminium prices consumers are facing globally.

- Driven by strong regional demand and local supply mismatch. Some premiums have reached towards $500 per tonne. In September 2014, for example aluminium premiums were 20% or $500 of all in $2500 per tonne primary cost in some regions, the highest level in 3 years.

- On the wary side due to the strong demand outside China and the recovery in Shanghai primary metal prices amid stimulus measures in country, major portion of capacities shutdown in China are expected to restart fairly quickly. During the first half of 2014, China curtailed about 2 million tonnes of capacity. It is believed as much as 1.3 million tonnes could restart before the end of December 2014, we will be watching it closely as to how this affects the western market specifically LME pricing as well as inventories.

- Low water levels and high energy cost are continuing to greatly impact the aluminium industry in Brazil. Total curtailments now stand at 575 thousand tonnes, a major portion of its production could be permanently shuttered unless energy cost could return to a sustainable level.

- Overall we are pleased with market developments during the quarter and aluminium production and inventories continue to move in the positive direction. Despite the improvement in market sentiments our prices remain under pressure for the second half. We experienced a $20 per tonne drop in our average CPC realisation. It represents the combination of continued market pressure and some concession due to loosening in specifications with some key customers. We were able to offset price reductions in raw material cost by roughly $21 per tonne of CPC helping us to sustain at Q2 average margins level.

- The fall in crude prices if sustained could push refineries in the US to move from Shale oil back towards light crudes which would enhance the availability of high quality GPC in 2015. This coupled with lower ocean freights due to the lower fuel costs will have a positive impact on our CPC businesses.

- From an operational perspective to the period, leaving temporary shutdown due to Hudhud, our Indian calcining facility is operating at or near the maximum capacity. And our US plants are running at approximately 75% utilisation levels which means that helps to ramp up sales quickly with the expecting growth in demand in 2015 and beyond.

- As informed in the last quarter we have resolved most issues in our Lake Charles energy project, this project has started contributing more fully from the month of August and we continue to optimise its operations. On a sequential basis our power revenues in US are up 5% over Q2.

- We continue to put our commercial efforts into achieving flexibility in specifications from our customers to control our input cost and to improve margins. You can see part of this in the Q3 results where we were able to maintain our margins. We also remained focused on managing our Balance Sheet and positioning the company for growth as markets allow.

- Now I would like to handover the call to my colleague Mr. Henri Steinmetz to discuss the Rutgers businesses. Henri.

- **Mr. Henri Steinmetz - President & CEO, Rutgers Group**

- Thank you Gerry. It gives me immense pleasure to address you all once again. First I would like to share with you recent market trends, in China coal tar prices were stable during the last couple of months. However due to the excess capacity issues the pressure on pitch prices is mounting. Last month we have seen a further fall of $16 per tonne in average Chinese realisation. It is now pitch prices are trading at $73 per tonne below tar prices resulting in negative margin in pure CPC business. Distillers are depending even more on the other downstream value added products such as carbon black and naphthalene to offset the negative margins from pitch sales.

- The chemical industry faces slowing growth in China and strong market in US due to low cost feedstock resulting in lower volumes and investment in the European chemical industry. However, the change of feedstock towards lighter feedstock fractions favors the aromatic markets in which RUETGERS is active. Despite this changing environment we were able to increase our profitability for this quarter on a Year On Year basis while on a sequential basis we were not able to achieve strong Q2 results.

- While our Pitch and other carbon products have performed extremely well to compare Q3 2013, we have seen a minor correction in operating profits compared to Q2 2014 mainly due to marginal fall in volume by 2%, an appreciation of rupee by about 2% compared to an average rate in Q2 2014 with active portfolio management towards higher value added products and development of advanced applications we are able to reduce the exposures for pitch to the aluminium industry and compensate for the price pressure on other oil products.

- With regards to the chemical business we have seen this quarter a 7% increase in sales volume but due to the changes in the product mix with higher trading volumes and lower resins sales we faced a decline of our operating performance on sequential basis. Besides lower volumes due to summer shutdown in Europe we have seen a change in the feedstock of the crackers towards lighter corrections resulting in lower production yields which we are currently addressing by adjusting the supply and production process.

- Further to add my views on the oil prices in addition to those shared by Mr. Sweeney, in the long term we are having natural hedge on oil prices as around 290,000 tonnes of our sales are linked to the oil prices and around 260,000 tonnes of raw materials, coal tar and other input materials, are directly linked to the oil prices as well our energy and logistics. Initiatives taken by the company to move product mix towards sale of creosote oil which is much less sensitive to oil prices have helped to reduce exposure to oil prices. Overall the exposure of the Group to oil prices is limited and will not have material impact on performance in the long term either ways.

- As informed by Mr. Jagan Reddy, we have successfully commissioned our PA project on time and within budget. Contribution from the PA project will start from Q4 2014, full benefit of the project can be seen in Calendar Year 2015. On the Russian project we had faced technical issues for some of the already existing structures causing delay of the project, which is expected to be completed in the second half of 2015. As already indicated by Mr. Jagan Reddy we do not expect any major cost overrun by this delay.

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

- **Moderator**

- Thank you very much. We will now begin the question and answer session. At this time if you like to ask your question please press "*" and then "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press "*" and "1.

- A reminder to all the participants you may press "*" and "1 for asking your questions. Participants if you wish to ask your question you may press "*" and "1.

- We have the first question from the line of Mr. Mittul Kalawadia from ICIC Prudential. Please go ahead.

- **Mr. Mittul Kalawadia - ICIC Prudential**

- Hello.

- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**

- Hi Mittul.

- **Mr. Mittul Kalawadia - ICIC Prudential**

- Yeah, hi. I was just wondering this year there was lots of reimbursement around of let's say if I am not wrong to the extent of Rs. 100 crores that we have received or will be receiving from the Rutgers previous owners. So to some extent that has supported the business in terms of cash flow and all. If the outlook which seems to be muted now if it remains that way then how do we look forward to meet the cash flow obligation because then the cash flows will be under serious stress.

- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**

- Srini, would you like to answer that question?

- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**

- Mittul actually what you said is correct there is a general muted performance is expected now. But as we have indicated in the previous calls and now also we expect that the recovery of the aluminium industry and the positive impact of the aluminium business on our CPC and carbon business is expected from mid of 2015. Apart from that our Lake Charles energy projects got stabilised now and the PA expansion in Belgium is operational from October 2014 onwards. And we have seen a very good amount of recovery in the cement business and the Russian project is expected to start from mid of 2015. Considering all these factors we are not very concerned that cash flows will be declining, we only feel that they will only improve going forward.

- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**

- Actually I would like to add one more point as a matter of fact the negative impact due to delay in project it had to incur, and the loss of revenue during this period was almost about $20 million since the plant is not operating should be able to compensate for the whatever cash flow received. And apart from that we do also expect a lot of cost savings from certain factors from raw materials and other factors. So with all this the expected growth in aluminium especially from second half 2015 and the overall expectation that the raw material prices will drop because our raw material prices are actually linked to the, the pitch business is linked to oil prices. With all these factors we are actually reasonably convinced that our year 2015 should be equally good without any onetime payment this year.

- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**

- Mittul, one other thing that I would like to add here is even if we exclude indemnification received from the prior owners we have generated a free cash flow of about $45 million in the 9 months ended September, 2014. And the substantial part of the CAPEX is expected to get completed in the last quarter of 2014 and first quarter of 2015. Going forward our cash outflows towards the capital projects will be minimised. So that's why we feel the cash flows should be stronger in the Calendar Year 2015.

- **Mr. Mittul Kalawadia - ICIC Prudential**

- Okay. Just what would be the CAPEX that you would incur in 2015?

- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**

- We expect somewhere it to be about $75 million.

- **Mr. Mittul Kalawadia - ICIC Prudential**

- Okay. And how is the working capital situation? Has it improved Quarter On Quarter or how is it? And what do you expect it because I think next year again you would require some amount of working capital once your plants ramp up?

- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**

- Mittul, it is stable, we don't expect any further increase or decrease in the working capital as of now, it reaches the optimum level.

- **Mr. Mittul Kalawadia - ICIC Prudential**

- Okay. Just one last thing again on the business side so on the call earlier it was mentioned that the pitch business is actually making losses. When I look at the segmental performance it seems to me that the CPC part of the business has done, the carbon part of the business has done well....

- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**

- Mittul, what Rutgers CEO has mentioned is the prices in China not that we are incurring the loss. The pitch prices in China are lower than the coal tar that is the raw material prices that is not the trend in rest of the world.

- **Mr. Mittul Kalawadia - ICIC Prudential**

- Okay. I thought that was true for, so the chemical business which has seen such a bad performance. Is it because there is some kind of an inventory loss because the Group prices moved sharply down or there is something more apart from that?

- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**

- Henri, would you like to address that?

- **Mr. Henri Steinmetz - President & CEO, Rutgers Group**

- Yes. Two things, in the chemical business that has adapted to one was the change of mix towards higher traded volumes which has lower margins. And the second one is that in the summertime the volumes were lower than the year before due to some shutdown of the customers in Europe. And from an operational point of view we have seen for one of our major supplier of raw materials a quality issue which is affecting our yields and outputs and also by that having impact on our cost which we are currently addressing in operations and also with the supplier.

- **Mr. Mittul Kalawadia - ICICI Prudential**

- So what steps you are taking so let’s say it is more of a recurring or do you see a change?

- **Mr. Henri Steinmetz - President & CEO, Rutgers Group**

- The changes that they had moved their cracker the biggest supplier had turnaround on their cracker and it isn’t yet the same quality out again. So we are still addressing how we get back to the specified raw materials, get a better performance on that and also we are addressing our processes so that we can more effectively process the products.

- **Mr. Mittul Kalawadia - ICICI Prudential**

- So any timeline you would want to put, by when...?

- **Mr. Henri Steinmetz - President & CEO, Rutgers Group**

- Yeah, I think we should get full control on the production issue till the end of the year, beginning of the first quarter and then we should be in normal operation again.

- **Mr. Mittul Kalawadia - ICICI Prudential**

- If you may allow then can I ask one more question?

- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**
- Please go ahead.
- **Mr. Mittul Kalawadia - ICIC Prudential**
- Okay. On the solar side so the press release mentioned that this is the project where the Government had invited bids and all. What kind of return expectations do you have from this bid and is there any pricing which has been finalised? So at what rate per unit that we would be mobilising on this?
- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**
- Mittul, we are expecting an IRR of 18-20% from this project and the price that was quoted by us is Rs. 5.89 paisa per unit with escalation of 3% per year for next 10 years. And the major benefit that will accrue to us is in the form of high depreciation, almost 75% of the plant cost can be claimed as depreciation in the year 1 itself. And this project is being done within Rain Cements Limited and we have highly profitable operations in the cement business.
- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**
- And one more advantage we are looking at is we have over 140 acres of land for the last 35-40 years so we actually can find a use for that land eventually. So this maybe, we thought this was a good idea because we have that land, it's been unused for the last several years. We thought actually we can put and actually we can do it at much more cost optimum basis compared to anyone else because no other company has actually have any land. Here the company actually bid based on land.
- **Mr. Mittul Kalawadia - ICIC Prudential**
- And what would be the total project cost here?
- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**
- Rs. 140 crores.
- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**
- We have already indicated in the press release, say about Rs. 140 crores.
- **Mr. Mittul Kalawadia - ICIC Prudential**
- And this doesn't include the cost of the land or was the land in the name of the company or how is it?
- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**
- No, it was in the name of the company and we assigned zero value to the land.

- **Mr. Mittul Kalawadia - ICIC Prudential**
- Okay. That's why the project cost of Rs. 140 crores seems to be a bit low?
- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**
- Yes, because we don't have any land cost for this one.
- **Mr. Mittul Kalawadia - ICIC Prudential**
- Okay. And this project would require what size of land?
- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**
- About 140 acres.
- **Mr. Mittul Kalawadia - ICIC Prudential**
- Okay. The full land goes under this project right now?
- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**
- Yeah, because we have no other use of this land actually, this was purchased in 1974 and it has been lying vacant for the last 40 years so we thought it's a good time to use it.
- **Mr. Mittul Kalawadia - ICIC Prudential**
- Okay. Thank you.
- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**
- Thank you.
- **Moderator**
- We have the next question from the line of Mr. Kunal Banerjee from Brigade Capital Management. Please go ahead.
- **Mr. Kunal Banerjee - Brigade Capital Management**
- Hi everyone. First of all on the working capital issue I think you mentioned that working capital is going to be flat flowing through the rest of the year. Then obviously in the chemical business and also I believe in your carbon products business because the GPC probably be to that extent to crude oil. The crude oil down now is expected in the Q4 working capital to actually relieve cash. So can you kind of explain why you expect flat working capital through your end?

- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**

- Mr. Kunal actually we have already seen the reduction in the working capital. There is about US$38 million has been released upto September, 2014 and it is at an optimum level. And we don't expect a material change in the working capital going forward.

- **Mr. Kunal Banerjee - Brigade Capital Management**

- You are not going to get the benefit of any price moves down. I mean I am just thinking even on the chemical side also Orthoxylene and some other materials have settled down about 5% in the Q4. So I am just wondering you know whether you are going to get the benefit of that but you are saying you are not going to get the benefit of that because maybe you got the PA expansion up and running?

- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**

- You are right all these things are offsetting each other and maybe the working capital in the cement business also will slightly increase because of the increase in the prices. So all these factors are on a consolidated basis will compensate each other.

- **Mr. Gerard Sweeney - President and CEO of Rain CII Carbon LLC, USA**

- I will just clarify Srinivas's comments with from the GPC perspective, we are not tried in any ways, we are not indexed to oil so it's simple its own supply and demand economics. So we will not see any significant drop in GPC prices so that would not liberate anything in the Q4 from the carbon business.

- **Mr. Henri Steinmetz - President & CEO, Rutgers Group**

- We are not producing Orthoxylene, we have the advantage of producing it out from naphthalene which is integrated in our tar supplies.

- **Mr. Kunal Banerjee - Brigade Capital Management**

- I was thinking if also Orthoxylene settles down then naphthalene in a little bit of manner should settle down, right because they are competing products. So it's the substitute of declining in price that should put some decline into your product as well, that's the reason I was bringing that up.

- **Mr. Gerard Sweeney - President and CEO of Rain CII Carbon LLC, USA**

- Yeah.

- **Mr. Kunal Banerjee - Brigade Capital Management**

- Gerry, just a couple of questions on the CPC business, first I was reading somewhere that Cidgo is in talks, sorry the Venezuelan Oil Company is in talks to sell Cidgo. And the impact of that would be to withdraw Venezuvelan heavy crudes from the US markets. I was just wondering if that happens, I know you guys don't show exactly from Cidgo but do you see any adverse impact on the GPC market in the US as a result of that? I know it hasn't happened yet but in the event that it does do you see any adverse impact in terms of you know supply availability of GPC?

- **Mr. Gerard Sweeney - President and CEO of Rain CII Carbon LLC, USA**

- In a word now let me take you through the reasoning behind that, the first and foremost, the most up-to-date information we have related to the sales that the Venezuelan's impact of that sales, they were essentially looking at the potential divestment strategically because they had some large bonds interest payments that they had to make to the bond holders. They made those payments on their own but they did not get the indications of value that they expected of the Cidgo business and have since withdrawn. And of course they can always come back to the markets. To look at what impact that would have is getting, infact my answer is no, it would have very little impact on it. Cidgo's refineries are really positioned to one there and upgrading crude which produces a relatively high sulphur and high metals.

- **Moderator**

- Can I leave you back to the call Mr. Bagmar?

- **Mr. Kamlesh Bagmar – Prabhudas Lilladher**

- Okay.

- **Mr. Kunal Banerjee - Brigade Capital Management**

- So just another question on GPC side, the US crack, the refining crack virtually I don't know some of that is probably just see through cracks but it seems like the US also cracks eventually find very dramatically. I am just wondering how the refineries are managing their run in the face of a dramatically lower crack. It is just in your opinion a seasonal correction and therefore you should be able to see runs kind of pick that up in the Q1?

- **Mr. Gerard Sweeney - President and CEO of Rain CII Carbon LLC, USA**

- Yeah, the crack runs are basically dictated by the facts their incentives essentially to crack and make demandful products. It does run seasonally, they don't usually swing too dramatically related to seasons as much as they look at it from a global demand perspective. But there is no doubt that the height of demand from the light fields perspective and they do see some fall off. It did nothing in the overall cracks that we have seen to this point or anything going forward that would cause me a concern that we are going to see that you know that's reduction over where we are right now. We definitely infact seeing them, if we are looking at a long term trend the runs have been down compared to historically where they are that's why we struggle from the raw material perspective having to take it to longer distances.

- **Mr. Kunal Banerjee - Brigade Capital Management**

- Okay, and couple of questions for Henri quickly. One is you know at the time of the transaction, which obviously includes the coal tar pitch business there about 11% EBITDA margins. And in your remarks you said that the oil sensitivity is probably much less today than those earlier because you have all these hedges. But what has changed otherwise in the business for it to be struggling so much and maybe you can address the issue around your hydrocarbon resins business which goes under construction I believe wherever it does. What's been going on there, how has the dynamics changed to make, pressure the margins in the Ruetgers' legacy, Ruetgers' chemical business?

- **Mr. Henri Steinmetz - President & CEO, Rutgers Group**

- I think there are two things that has happened since 2010, I think the one thing is that we have seen a tremendous price pressure happening in last year in the pitch sales in what I call American and European markets due to the curtailment of the smelters. And capacity actually over the last two years has gone down in our markets. And what we are doing on that side of the market, we are very actively looking at and finding applications for what we can't use pitch for other applications be the compliments for higher value applications. But still we were not able to compensate fully for that effect. Secondly, on the resins and the modifiers what we saw there is lately is the change of the crackers to lighter fractions so we actually have seen that through that we get less active materials and that's where we are addressing with our suppliers to get that quality of raw material upto where it should be. But that is more, that's a change in markets so when we are addressing it because of those changes we also have to change our processes how we process. But overall I think the major impact is due to the pitch itself.

- **Mr. Kunal Banerjee - Brigade Capital Management**

- Okay, so sequentially are you going to be flat because you got the PA expansion which obviously will generate from EBITDA there but are you looking in the Q4 to be flat with the Q3 or are you going to be better off because you have these one off issues or should we think about the Q4?

- **Mr. Henri Steinmetz - President & CEO, Rutgers Group**

- Operationally I think what we have to look into Q4 is always is we see from our side also a certain seasonality some of the resins business. And so our closing over Christmas so we will have probably some lower volumes. We don't see an impact but it can always shift the current situation quickly otherwise I think it will be in line with the previous Q4s.

- **Mr. Kunal Banerjee - Brigade Capital Management**

- Okay. Last question for you Jagan, the cash is building up on your Balance Sheet so it's almost you have 60-70% of your market capitalisation right now. What are you thinking in terms of when you announced this $22 million equivalent solar project? Is there any chance that you are going to return some of that cash to shareholders or you are thinking about capital allocations going forward in 2015?

- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**

- Our target at this time is reducing debt, as a matter of fact our 2010 bonds, the first call option has been on December 1, 2014. So we want to look at some options for refinancing including repaying using this cash for prepayment of the debt.

- **Mr. Henri Steinmetz - President & CEO, Rutgers Group**

- I think that's the right thing to do because I think the markets where it is you can probably get financing in 5-6% areas today versus 8% for those bonds today.

- **Mr. Kunal Banerjee - Brigade Capital Management**

- Okay. Thank you very much.

- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**

- Thank you.

- **Moderator**

- Thank you. We have the next question from the line of Mr. Sanjay Jain from Motilal Oswal. Please go ahead.

- **Mr. Sanjay Jain - Motilal Oswal**

- I wanted to get some sense why the Chinese market, the pitch prices are so low as compared to their coal tar like this is some temporary situation or what could you attribute the reasons for this?

- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**

- Henri.

- **Mr. Henri Steinmetz - President & CEO, Rutgers Group**

- Yeah, the reasons for the low price, if you look to coal tar and pitch they have transported liquid at 250 degrees for pitch and another 100 degrees for tar. So you are very limited in transportation and because of the Chinese market at the moment extremely over supplied in tar or they are very low on tar, that's why they had to get rid of. They sell the tar or the pitch at a lower price to be able to get the value out of the oil and naphthalene another value products. So actually we are seeing that the Chinese is still are basically operating at breakeven, they make their margins on the valued products while they are losing on pitch resulting in a breakeven situation.

- **Mr. Sanjay Jain - Motilal Oswal**

- Okay. So what's the outlook like, would you think this situation will continue or it will reverse? I mean do you think pitch price would recover or tar price would go down or they will continue to behave like this or will this eventually have some impact on the European market?

- **Mr. Henri Steinmetz - President & CEO, Rutgers Group**

- I think both American and European pitch markets are balanced at the moment. So it's more when we look into the Middle East, Asia where we see excess in pitch. We would see this situation going forward, I think at least the mid of the 2015 when aluminium industry will improve so the pitch situation will improve. But our clear strategy is how can we move and we have done it successfully so for pitch to higher value application. So we are selling high value pitches and also we are using pitch as a feedstock for Carbores in order to generate higher margins. And also shorten the mark at the supply for the aluminium side that is our reaction but the dynamics on the market I think at least in the middle of 2015 would stay the same.

- **Mr. Sanjay Jain - Motilal Oswal**

- Okay. Second question is on the solar power project that we have undertaken. I often wonder when we, although this project on the outset look attractive as you highlighted IRR could be 18% but what about the cost of capital? I mean at times when we have very high leverage in the Balance Sheet, the average cost of capital actually often is quite high in situations like what we are today. Even though the IRR of the new project is high but on a net basis it may not necessarily create the value for the shareholders. I mean have you given a thought on that basis? Basically the question is that the $22 million that we are going to invest in this project if we utilise that to reduce debt so the overall our ability to reduce interest expense will be much higher. So the opportunity cost of for this $22 million could be much higher than what may look straight to our eyes.

- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**

- Sanjay this is Srinivas answering your question but if you look at this project as I mentioned will be done within the Rain Cements which is almost a debt free company. Other than the sales tax deferment what they need to pay to the Government of Andhra Pradesh which is interest free, there is no debt in the Rain Cements Balance Sheet. And substantial part of the project cost will be met out of the tax benefit that accrues from the project because it is eligible for a 80% depreciation in Year 1. Maybe in Year 1 and Year 2 itself we should be able to gain it out of the tax outflows. And because of that the actual cash outflow will be minimal and we expect that the rate of interest should be around 11-12%.

- **Mr. Sanjay Jain - Motilal Oswal**

- Okay. And what kind of EBITDA like you know would be can we expect from this? Like basically the project cost to EBITDA ratio what kind of that number would look like?

- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**
- As you know in the solar project the fuel itself is free and the operational cost is very minimal. We expect for an investment of Rs. 120 crores or Rs. 140 crores, we expect that our EBITDA will be something like Rs. 25 crores and which will keep increasing.
- **Mr. Sanjay Jain - Motilal Oswal**
- Okay. Thank you.
- **Moderator**
- Thank you. We have the next question from the line of Mr. Sureddi from Mergers Indiainfo. Please go ahead.
- **Mr. Sureddi - Mergers Indiainfo**
- This is for Srini, given a comfortable cash position of the company.
- **Moderator**
- Mr. Sureddi may I request you to please speak a little louder?
- **Mr. Sureddi - Mergers Indiainfo**
- Yeah, this is for Srini. I just want to understand given the comfortable financial position of the company. Is there any scope to refinance 2018 payment, bullet payments and the country rating has been improved, I mean since the gush of liquidity. Do we have an option to do that?
- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**
- Mr. Sureddi actually like Mr. Jagan has already commented that we are looking at refinancing the bonds but the country rating has no significance or no impact to our financing because none of the debt outside India have any recourse to the Indian companies. They are not guaranteed by any of the Indian companies. Because of that there is no credit enhancement that is coming from the parent in India and the country rating will not have any impact to our bonds. It’s always the market outlook is the one which will have the impact on our ratings and our expected interest cost.
- **Mr. Sureddi - Mergers Indiainfo**
- The falling coal prices, okay you have addressed it has not materially released your working capital.
- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**
- That’s true.

- **Mr. Sureddi - Mergers Indiainfo**
- Okay. I appreciate that. Thank you.
- **Moderator**
- Thank you. We have the next question from the line of Mr. Achal Lohade from JM Financial. Please go ahead.
- **Mr. Achal Lohade - JM Financial**
- Yeah sir, thanks a lot for taking my question. I wanted to just check in the standalone results we have received dividend from subsidiary companies so whether this dividend is from the US subsidiary?
- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**
- Yeah, this is received from the US subsidiary and as I mentioned in my opening remarks we are eligible for lower tax rates that is the benefit given by the Government of India. And apart from that we are also eligible for exemptions from payment of dividend distribution tax which has increased in the recent times to 19-20%.
- **Mr. Achal Lohade - JM Financial**
- Okay. And sir the other question is that since the coal prices have been falling but the power and fuel cost has been increasing. So is there any other reason for that?
- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**
- When you are looking at the power and fuel cost that is mostly in the cement operations where we use the coal and we buy the power from the Grid. We have not seen a fall in the prices charged by the power utilities in India especially in Andhra Pradesh. Maybe for the next few years we expect that there won't be any fall in the fuel prices or at least the power tariffs by the State utilities.
- **Mr. Achal Lohade - JM Financial**
- So the total fuel expenses, the power and fuel expenses, what will be the...?
- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**
- Substantial part of it is coming from the cement operations.
- **Mr. Anchal Lohade - JM Financial**
- Okay. Thanks a lot sir.

- **Moderator**

- Thank you. The next question from the line of an individual investor Mr. Akilesh Kumar. Please go ahead.

- **Mr. Akilesh Kumar**

- Hi Jagan this is a question with regards to the structure of our organisation where we have keeping as a holding company. And since 2007 when we merged the two businesses cement and calcing our market cap has not improved at all in 7 years. And I am not finding any reason why we are not delisting the cement business again which will have a market cap of I believe, in total it will double the market cap of our current market cap which is around Rs. 1700 crores. Any particular reason why we are not relisting that?

- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**

- No, I think what we are looking at is this is a, cement actually gives us a dividend for the company and it has been providing a backdrop whenever we have difficulties of getting funds from the carbon Group or vice versa. So we thought actually we would like to retain the cement business in the Group because we think that provides a good hedge for us in case it is in trouble because all our other businesses are internationally dependent. Only cement is that is based in India, we have taken advantage of that and retain the business so that we keep on evaluating our options. One option is possible listing of the carbon business in the foreign stock exchanges. Once that happens, maybe they will get a better understanding of the carbon business and that's how the market capitalisation that is listed so that may reflect in the stock rates in India so our initial thought is that.

- **Mr. Akilesh Kumar**

- Okay. I got it but I am not yet convinced about the dividend part what we are discussing so dividend, all the shareholders will get the same benefit. Even if you relist I will get the same share, you will have the same share and dividend can be paid out of that also. If we are making any profit out of cement business, dividends can be distributed that is fine. I don't worry about where the dividend is coming from either your carbon business or from cement business, right? And even the years when we are making losses we are getting dividends from our US subsidiaries, right?

- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**

- Vice versa, we would like to mature it but I don't think this is the forum to be discussing the strategy of delisting and relisting the companies at this point of time. But we are evaluating all the possible options.

- **Mr. Akilesh Kumar**

- Okay. Got it. I have one last question regarding the term debts what we have reported in this quarter and in the previous quarter where the amounts are not matching. Have we repaid part of them like $1067 million since June 2012, I don't remember the numbers but all of them looks....?

- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**

- No basically there is a €210 million debt is there which is when it gets converted into US dollars the number is on a lower side. The exchange rate between Euro versus USD has come down from 1.35 to 1.27.

- **Mr. Akilesh Kumar**

- Okay. So this is due to conversion impact to you, right?

- **Mr. Srinivasa Rao - Chief Financial Officer, Rain Industries Limited**

- Yeah, you are right.

- **Mr. Akilesh Kumar**

- Okay. One more smaller point we have a deferred consideration of 23 million as of now for that I believe the condition will not be met. So that thing will get off our Balance Sheet right this year?

- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**

- Actually we can't comment on it because it is subject to the terms of the agreement and whatever is the outcome at the end of the year that's what the payment will happen or will not happen, will be known only after the audited financials for Calendar Year 2014 are prepared.

- **Mr. Akilesh Kumar**

- So we will come to know next year, right?

- **Mr. Jagan Mohan Reddy - Managing Director, Rain Industries Limited**

- That's correct.

- **Mr. Akilesh Kumar**

- Okay. Thanks a lot. That's it.

- **Moderator**

- Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Kamlesh Bagmar, over to you.

- **Mr. Kamlesh Bagmar – Prabhudas Lilladher**

- I thank all the participants and management of the company for providing us an opportunity to organise this call. Thanks very much.

- **Moderator**

- Thank you. On behalf of Prabhudas Lilladher that concludes this conference. Thank you for joining us and you may now disconnect your lines.

END.

Note: 1. This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.