Rain Industries Limited

Q2CY15 Post Result Conference Call Transcript

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Moderator

Ladies and gentlemen, good day and welcome to the Rain Industries Limited Earnings Conference Call hosted by Prabhudas Lilladher Private Limited. 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 the conference call please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. Now I hand the conference over to Mr. Sreesankar. Thank you and over to you sir.

Mr. Sreesankar – Prabhudas Lilladher

Thank you Aman. Good evening everyone, I welcome all the participants to the Q2 2015 Conference Call of Rain Industries Limited. We have with us Mr. Jagan Mohan Reddy, Managing Director of Rain Industries Limited, Mr. T. Srinivas Rao, Chief Financial Officer of Rain Industries Limited, Mr. Gerard Sweeney, President & CEO of Rain CII Carbon LLC, USA and Mr. Henry Steinmetz, President & CEO of the Rutgers Group. We commence the call with an opening remarks from Mr. Jagan Mohan Reddy, providing an update on developments during the quarter in Rain Group. He will then be followed by Mr. T. Srinivas Rao providing you the highlights of the financial performance during Q2 2015.

Mr. Gerard Sweeney will provide outlook for the CPC business and Mr. Henry 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 remind 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 Mohan Reddy to provide an update on the key developments in the Rain Group. Over to you sir.

Mr. Jagan Mohan Reddy - Managing Director

Thank you Sreesankar. Good evening everyone and welcome to our 2015 Second Quarter earnings call. I would like to start my discussion with a brief update on the key developments in Rain Group.

The performance of RAIN during Second Quarter of this financial year has been reasonably good when compared to the challenging previous year. The Company has been working constantly to optimize the overheads; optimize the product-mix to minimize volatility and to reduce concentration to any single industry and lastly to reduce interest cost.

In Second Quarter 2015, RAIN has achieved Consolidated Revenue of INR 26.1 Billion; Consolidated Operating Profit of INR 4.4 Billion; and Consolidated Net Profit of INR 1.5 Billion. Although the revenues declined due to depreciation of Euro and fall in quotations for key products, the overall profitability in current quarter has improved over the comparative quarter in previous year; due to change in product mix across carbon & chemical businesses, coupled with increased volumes in Chemicals business segment. My colleagues Gerry and Henri will take you through the factors that influenced our performance in Carbon and Chemical businesses.

In Cement business, during current quarter, on a sequential basis, the operating profit has improved due to improved blended realization. With increased focus on Non-traditional markets such as Kerala, Maharashtra and Odhisa; the volumes contribution from these markets has increased from 6% to 16%. Further, reduction in fuel cost due to using cheaper Pet Coke has contributed for better performance during the quarter. The Company expects cement market to improve going forward on the back of higher spending on infrastructure, roads and housing.

The Company in its continuous endeavor to reduce debt and optimize interest cost has bought-back Bonds of US$ 17.7 million during Second Quarter 2015 and bought-back additional Bonds of US$ 23.7 million during July 2015. Since last December, the Company prepaid total debt of US$ 67.7 million resulting in annual interest savings of US$ 6 million.

To give you an update on strategic developments, the construction of Russian Coal Tar Distillation Plant is progressing well and is expected to commence operations in the Fourth Quarter of CY 2015.

With regard to Solar Power Plant in Dharmavaram, Anantapur District, Andhra Pradesh, The Company would induct SunEdison Group as JV Partner in the Solar SPV for setting-up the Solar Project with most efficient technology at an optimal project cost. The Company would own 51% shares of Solar SPV and balance 49% would be owned by SunEdison Group.

I would now request Srinivas to provide highlights of the financial performance during Second Quarter 2015.

Mr. T. Srinivas Rao - Chief Financial Officer

Thank you sir and a warm welcome to all the participants.

To highlight some of the key performance indicators, on a consolidated basis:

- Consolidated Net Revenue is INR 26,100 million during the current quarter, a fall of 16% compared to INR 30,898 million during Second Quarter 2014.

    - Carbon products sales volume during the current quarter is 924 thousand tons, an increase of 18% compared to 785 thousand tons in Second Quarter 2014. Sales volume of manufactured carbon products declined by 6% due to rescheduling of deliveries to customers; which was off-set by increase in Pet coke trading sales volume. Carbon revenues in Indian Rupees decreased during current quarter due to decline in average blended realization by 35%, substantially due to depreciation of Euro against Indian Rupee by 14% and partly offset by appreciation of US Dollar against Indian Rupee by 6%. Overall revenue from Carbon Products business declined by 19% in Second Quarter 2015; as compared to Second Quarter 2014.

    - Chemicals sales volume during the current quarter is 86 thousand tons, an increase of 15% compared to 75 thousand tons in Second Quarter 2014. Chemical revenues in Indian Rupees decreased during current quarter due to decline in average blended realization by 32%, mostly due to depreciation of Euro against Indian Rupee by 14%. Overall revenue from Chemical business reduced by 18% in Second Quarter 2015; as compared to Second Quarter 2014.

  - Cement volume during the current quarter is 554 thousand tons, a decrease of 7% compared to 595 thousand tons in Second Quarter 2014. With increase in price realization coupled with higher sales in new markets, Cement revenues increased by 22% in Second Quarter 2015; as compared to Second Quarter 2014.

- Consolidated Operating Profit for the current quarter is INR 4,372 million an increase of 15% compared to INR 3,792 million achieved during Second Quarter 2014. Operating Profit increased during current quarter mainly due to change in product mix and supplemented by savings in other operating expenses. Operating Profit during Second Quarter 2014 included environmental indemnification claim of INR 533 million received from prior owners.

- Operating Margin for the current quarter has increased to 17%, compared to operating margin of 12% achieved during Second Quarter 2014.

- During Second Quarter 2015, the Company had a foreign exchange loss of INR 147 million, as compared to a foreign exchange gain of INR 228 million in Second Quarter 2014. The Forex loss in the current quarter is mainly due to loss on US dollar denominated receivables from appreciation of Euro and CAD against US dollar which is partially offset by strengthening of Russian Ruble against US dollar and Euro.

- Finance cost during the current quarter is INR 1,423 million, a decrease of 4% compared to INR 1,482 million during Second Quarter 2014. Even though there is an appreciation of US dollar against Indian Rupee by 6%, finance cost has reduced on account of pre-payment of Junior Subordinated Notes of US$ 26.3 million during December 2014 and buy-back of Bonds of US$ 17.7 million during the current quarter, repayment of scheduled instalments of other debt and translation impact of Euro currency interest cost.

- Effective tax rate during the quarter is in-line with the group tax rates in various geographies which include India, Belgium, Canada, Germany and United States.

- Consolidated net profit during the current quarter is INR 1,451 million compared to consolidated net profit of INR 1,235 million during Second Quarter 2014.

- The Company achieved a consolidated EPS of INR 4.31 during the current quarter as compared to consolidated EPS of INR 3.67 during Second Quarter 2014.

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

Mr. Gerard Sweeney - President & CEO, Rain CII Carbon LLC, USA

Thank you Srinivas, and good evening everyone. It's a pleasure to speak to you all once again.

The Aluminum Industry, the key end use consumer for our CPC and CTP products, are in a prolonged downturn in the commodity cycle. This is quite contradictory to the demand side, where there is ever-growing demand for Aluminum in every major end use market sector, and worldwide growth of 6% for the last several years. The strong growth in global demand has brought inventories down to around 60-days of daily consumption. Also, growth in aluminum demand outside China is expected to be 3-3.5% for CY15. This represents the largest growth in western world Al production since 2011.

Despite these factors, primary LME Aluminum prices declined to US$1,600 per Ton, the lowest level since July 2009. The decline in Aluminum prices appears mainly due to global oversupply by about half-a-million tons, coupled with concerns of potential dumping by Chinese Smelters in the future due to economic woes in the country. Also, a stronger US dollar and overall depressed attitude towards commodities at present are contributing to the headwind.

Regional premiums declined during Second Quarter, resulting in lower realization to smelters. We have seen the steadying of premiums in the Midwest and in Europe during late June and July reversing the sharp decline over the last quarter. The weakness in premiums over the first half 2015 along with the weakened LME price have put pressure on smelters to compete worldwide.

The decline in Energy prices and substantial depreciation of Euro against US Dollar in the last few quarters has improved the competitiveness of many European Smelters. While the overall market sentiment still remains uncertain, the expected growth of 5% in Aluminum consumption in North America this year together with the more competitive European situation, keeps us reasonably comfortable that our Aluminum customer base will not experience further curtailment.

The average CPC contract price is in full swing with smelters attempting once again to push down prices. We are confident however, that there is no basis for large scale reductions. We have settled a few prices to date for H2 with only a modest decrease in price per ton compared to previous settlement in H1 2015. In view of the weak market conditions and the resultant pressure on our CPC prices, we continue working hard to offset sales price reductions through raw material cost reductions to sustain our overall margin level. Also, our continual push for loosening of product specifications by customers is helping us to protect our margins.

On the CPC sales volume side, with an estimated increase of 10% production of Aluminum in India, we are exploring to make incremental supplies to Indian Smelters from US plants, aided by low global ocean freights.

The fall in crude prices is changing the overall crude diet of some refineries in the US, in moving from Shale crudes back to Sweet crudes. This had a mixed effect on us to date, and we will continue to watch the situation to fully appreciate the trend. The weaker steel, cement and power markets however have helped drop the fuel prices, thereby lowering the floor price alternative for our lower grade blend components. Again, this helps us protect margin and control our costs. Lower ocean freights are having a positive impact on the US and Indian CPC businesses, and will continue if freight markets remain at low levels.

From an operational perspective for the period, our Indian Calcining facility is operating at or near the maximum capacity and our US plants are running at approx. 80-85% utilization levels.

Our Lake Charles energy project is contributing more fully now and we continue to optimize its operations. We have seen a substantial improvement in energy revenue contribution from Lake Charles during 2015, and are hopeful it will continue.

We will continue to watch developments on the global front, especially those in China. The western world seems poised for market recovery with demand outstripping production, and overall lower global inventories. For now however, we will continue to protect our margin, control our expenses and manage our balance sheet.

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

Mr. Henri Steinmetz – President and CEO, RÜTGERS 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.

After the massive drop of commodity prices towards the end of Fourth Quarter 2014, the notations have bottomed out in First Quarter 2015. Although we saw an increase for all the critical notations in Second Quarter, however we are seeing again a reversed trend for the oil notations due to a structural oversupply, lower consumption growth especially in China and additional anticipated volumes resulting from the political developments with Iran. The Fuel Oil price increased from an average of US$ 276 per Ton in First Quarter of 2015 to an average of US$ 324 per Ton in Second Quarter, Benzene notations increased from an average of US$ 645 per Ton in First quarter of 2015 to an average of US$ 834 per Ton in the current quarter, while US dollar depreciated against Euro from US$ 1.08 per Euro at the end of First quarter of 2015 to US$ 1.12 per Euro at the end of Second Quarter.

Our supply of coal tar was in line with our demand and we could operate our coal tar distillation plants at an utilization level of above 80%.

Economic growth in Second Quarter 2015 in our major market the Atlantic region was good, resulting in a good demand for our products. Given the strengthening of the US Dollar against the Euro, the competitiveness of all our products, especially compared to China and the USA, has increased and resulted in a positive impact on demand for our products. Overall, we expect a reasonable output growth in EU Chemicals during CY15.

Although the chemicals business faced lower revenues of 18%, mainly due to change of notations, in current quarter compared to the Second Quarter of 2014, the profitability in current quarter was sustained to the level in Second Quarter of 2014 by re-aligning product mix.

For the coal tar related products we have a natural hedge on oil prices to a great extent. The initiatives taken by the Company to move the oil product mix more towards the sale of creosote oil; less sensitive to crude prices had helped to reduce our exposure to crude oil. The BTX related product margins are mostly affected directly by the benzene notations which bottomed out in the first quarter and are currently trading in the range of $750 -$850 per ton, although currently the markets prices remain volatile.

We have successfully commissioned our PA project on time and within the budget. In Second Quarter the plant reached designed capacity. The full benefit of the project can be seen in calendar year 2015. For the Russian project, we are currently progressing according to the time schedule and we expect no cost overrun. We plan to start commissioning of the plant in the fourth quarter of 2015.

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. Anyone who wishes to ask a question may press "*" and "1" on their touchtone phone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question.

Ladies and gentlemen we will wait for a moment while the question queue assembles.

The first question from the line of Mr. Achal Lohade from JM Financial. Please go ahead.

Mr. Achal Lohade - JM Financial

Good evening sir, thank you for the opportunity. First of all congratulations on great set of numbers. Wanted to understand one, in terms of, was there any inventory gain or anything of that sort. Just trying to understand if the current quarter numbers are sustainable?

Mr. Jagan Mohan Reddy - Managing Director

The current quarter numbers do not include any inventory gain. Basically the performance has been good because of our optimization of performance parameters and the optimization of the product-mix to minimise any exposure to a particular industry and our ability to blend raw materials to reduce the cost overall. So those factors have helped. The markets as you are aware in turmoil so we are hoping that we should be able to navigate through it. But at this point of time we cannot comment on how the performance will be going forward considering the volatility in the global markets.

Mr. T. Srinivas Rao - Chief Financial Officer

Achal, the second thing is the expansion projects that we are discussing like the Russian plant, they will be operational in Calendar Year 2016 and our performance should be better in 2016 when the Russian plant is operational. But as of now the markets are highly volatile and the Q2 performance we can't say it is sustainable but we don't expect a major decline also at the same time.

Mr. Achal Lohade - JM Financial

Got it. Sir, if I look at the commentary you said if I look at the carbon products profitability, you said in terms of the numbers the manufacturing volume actually declined but the trading volume went up, that's why the overall volumes are also up. Yet the EBITDA per tonne, dollar per tonne has improved. So I am trying to understand what has driven the margin improvement because I would imagine that the trading components would not have a $50-55 kind of margins just on trading?

Mr. T. Srinivas Rao - Chief Financial Officer

No, trading business will never give the type of EBITDA what we will get in manufacturing business. But as Mr. Jagan and Mr. Henry explained that there is a change in the product mix we are looking at by doing some of the things like creosote oil etc. which are moving away from the crude oil prices. So because of that it helped us to deliver a better performance in the carbon products.

Mr. Jagan Mohan Reddy - Managing Director

And the team has been actually innovative in reducing the raw material cost by blending various products so that we actually tried to improve margin. So I think that has helped quite a bit.

Mr. Achal Lohade - JM Financial

Sorry, I am actually asking little bit more in detail because if you say blending is it for Rutgers business also or is it only for the CPC business?

Mr. Jagan Mohan Reddy - Managing Director

It is for both the businesses....

For both the businesses for example we are bringing in some cheaper raw materials and blending with other materials so that overall we maintain customer specs at the same time reduce cost.

Mr. Achal Lohade - JM Financial

Got it. Gerry, if you could talk a little bit about how are the GPC, CPC prices moved in last quarter or so and how do you look at it going forward?

Mr. Gerard Sweeney - President & CEO, Rain CII Carbon LLC, USA

As I said, to take my earlier commentary a little deeper, on the GPC side we have been aided by the fall off in demand a bit from the power, cement and steel sectors helping to lower the overall floor that in earlier calls you have heard us talk about was a hard floor that we were bumping up against in trying to push down some of our higher Sulphur supply. So that trend continued in the Q2 and we are grateful for that because it does allow us to control our cost. From a pricing perspective as I commented as fully expected, first of all we don't negotiate quarterly that is negotiated semi-annually. So when we got into the second half negotiations, really in June kicked those off, it really began with the smelters asking for deep price discounts because they are obviously been affected by the market situation with aluminium. But when you look at the construct and structural elements of both CPC and the coal tar pitch markets there is no justification for deep price discounts. And so we did settle a few prices at modest reductions consistent with what we believed we can do on the raw materials side and we expect that trend to continue.

Mr. Achal Lohade - JM Financial

Got it. In terms of the GPC availability because of the fall in crude price has that affected the availability of GPC?

Mr. Gerard Sweeney - President & CEO, Rain CII Carbon LLC, USA

I am sorry your question again.

Mr. Achal Lohade - JM Financial

Sorry, the crude oil price has it affected the availability of GPC for us?

Mr. Gerard Sweeney - President & CEO, Rain CII Carbon LLC, USA

No, there is no correlation between oil price and GPC price. GPC pricing as a solid is strictly related to be supplying demand availability of GPC in particular quality levels. So it is more you arguably would say that GPC is more tied from a fuel perspective to coal pricing, steam coal pricing or even metallurgical coal pricing in the steel area then it is at all to the oil price.

Mr. Achal Lohade - JM Financial

And more so if you could provide a perspective on the availability, one is about the price what about given the fall in the refining margins for the refineries, have refineries announced any curtailment or shutdowns? Has that impacted the availability of GPC green coke for us?

Mr. Gerard Sweeney - President & CEO, Rain CII Carbon LLC, USA

No, despite the drop in crude oil prices the overall refining margins have remained pretty consistent. So we have not seen any noticeable change in coke production or refinery runs nor do we are concerned that we will see any meaningful reductions going forward. One area where we thought we might see some, we are not seeing all that much is in China but again we are watching that situation carefully.

Mr. Achal Lohade - JM Financial

Got it. Just last question.....

Moderator

Mr. Achal, may I request you to join back in the question queue as the participants are waiting for their turn? Thank you.

The next question comes from the line of Mr. S.U. Reddy from Mergers India Infoline. Please go ahead.

Mr. S.U. Reddy - Mergers India Infoline

Good evening. My question is on the current cash flows and our bullet loan payment is falling due in 2018. Are we have been able to repay the whole debt means some kind of refinancing is obvious, given the fed rate, interest rate hike. Is our interest cost is expected to go up or the metrics will improve so that our credit rating will improve? I mean what are the alternatives that are under consideration for the bullet repayments that is falling due in 2018?

Mr. T. Srinivas Rao - Chief Financial Officer

Our repayments will start in December 2018. The first major payment comes in Dec 2018. So we have around 3.5 years for that payment but meanwhile we always look at the refinancing option at lower cost and we are working with our advisors to see how we can raise the finance at lower cost. Hopefully there should be a clarity in next few quarters about 2018 payments. But we always look at reducing the cost....

Mr. S U Reddy - Mergers India Infoline

Agreed but the fed increases the rate, does it have an impact on our borrowing cost going forward assume it to be?

Mr. Jagan Mohan Reddy - Managing Director

I couldn’t hear could you speak a little louder?

Mr. S U Reddy - Mergers India Infoline

If the US interest rates goes up our interest cost will go up in case there is...?

Mr. T. Srinivas Rao - Chief Financial Officer

No, the increase in US interest rates has no impact because all our bonds are at fixed rates so we have no impact of the interest cost.

Mr. S U Reddy - Mergers India Infoline

Going forward if you borrow, will that have an impact?

Mr. T. Srinivas Rao - Chief Financial Officer

At this point of time it maybe little early to make a comment on that because we don't know what kind of financing we are going to use for raising financing. So what kind of instruments we will be using for raising financing. If it's a bond there will be no impact on interest rates but if it's a bank financing there will be a certain financing cost impact. So we will only be able to comment on that at that point of time.

Mr. S U Reddy - Mergers India Infoline

My last question is, is it mandatory to give standalone results because standalone is more like...?

Mr. T. Srinivas Rao - Chief Financial Officer

It is mandatory, under the stock exchange guidelines it is mandatory, we have to give both.

Mr. S U Reddy - Mergers India Infoline

Okay, I appreciate. Thank you.

Moderator

Thank you. Our next question is from the line of Mr. Kunal Banerjee from Bridget Capital. Please go ahead.

Mr. Kunal Banerjee - Brigade Capital

Thank you, good evening. Sir, I have few questions, first of all on the CPC, the supply demand picture in China. Have you done any analysis on that because it seems like China is set to grow primary aluminium capacity by 10 million tonnes between now and 2018 that's pretty significant step up in their supply. But given that CPC is a consumable and so every 10 million tonnes then would account for 4 million tonnes of CPC demand over those few years to 2018. Is there a lot of capacity available in CPC within China to meet that demand because CPC I am assuming is pretty much being manufactured from GPC in China. And they have the same refining capacity that is growing at some rate but it's certainly not growing at the rate of the aluminium production nor the CPC demands. So, I don't know if you have done any analysis within China, the intent of the question as if China then becomes net short CPC with the West already running with higher rates, could you conceivably see a pinch point developing for CPC on a global basis?

Mr. Gerard Sweeney - President & CEO, Rain CII Carbon LLC, USA

In a word yes and thank you for a progressive more rosy questions I guess I would say. But I think your observations are correct, China is poised and planned to add another 10 million tonnes of aluminium production through 2018 that's fairly well understood and expected in the marketplace. We have looked at this, we have worked on things are not very fluid in China to completely understand as most situations are in the West. But with that said dealing with your question and the expectation of 10 million tonnes of additional aluminium production, the simple thing is that would put a tremendous drain on the availability of CPC and I believe even coal tar pitch within China inorder to feed that overall.

The Chinese will do what we often see which is they will turn inward feed their domestic demand perhaps even becoming a net importer of CPC if it were to reach that full 10 million tonnes of additional production. And there is no doubt that that would be something that's bullish for us but again not unlike the response driving gate to the financing, we are focusing really on where we are now in this market. We certainly hope that things strategically will break our way in the future but we are planning for the worst to be clear, planning for the worst but hoping for the best.

Mr. Kunal Banerjee - Brigade Capital

And then you talked, you mentioned I guess that you are going to see an increased volumes, increased trade from your US facilities into India. I am just wondering what the net back is into India. What sort of trade today and I believe at least in the Q1 you had indicated CPC price realisations over 300 per tonne. So can you give us a sense for those incremental volumes going into India versus your traditional maybe LatAm markets, what's the incremental ocean freights relative to LatAm exports basically?

Mr. Gerard Sweeney - President & CEO, Rain CII Carbon LLC, USA

We are evaluating so it is very much in study phase, at this point we are not in a position to discuss volumes and it is entirely too complex, it is not a straightforward direct sales scenario like we experienced with our Latin American sales and everything. So until we have something more concrete all that the concept that we were trying to share at this point is that we are looking at the place in the global, we are looking at places in globe where we can essentially, we have the India plan where can we bolster the demand growth by providing more supplies since we are sold out in India. And that's really the way that we are working at this point. The low freight range allow us to look at that opportunity but I can't really elaborate anymore on it at this point.

Mr. Kunal Banerjee - Brigade Capital

A couple of more questions, one for Henry, on the carbon black side it seems like some of your customers were mentioning on their calls that it's difficulty of procuring the feedstock from the cracker side. So were you able to, you are competing obviously with the hydrocarbon based or petroleum based feedstock and some of these companies had real trouble procuring the petroleum based feedstock. Were you able to take advantage of that dislocation where your carbon black feedstock being that it's colder, right?

Mr. Henri Steinmetz – President and CEO, RÜTGERS Group

Okay, what we do our carbon black at the moment of CBO oils or the colder carbon black oils, we sell on contracts to the people. But on the other side we are also looking to move more oils in the mix towards creosote oils. By this we have better ability to manage our risk and also pricing and our margins. And I think in the first half of the year we took those opportunities, one was getting to some extent better margins on the or better prices for the carbon black oils but they are not very profitable just improving margins but on the other hand we move oils towards the creosotes which really helped us in improving results.

Mr. Kunal Banerjee - Brigade Capital

Okay so you are deemphasising the carbon black feedstock as well?

Mr. Henri Steinmetz – President and CEO, RÜTGERS Group

At the moment that's our lowest margin product.

Mr. Kunal Banerjee - Brigade Capital

And just quickly Srinivas, free cash flow in the first half, can you just give us a bridge and then are you expecting a similar amount of deleveraging or debt paid down in the second half equivalent to the 68 million that you paid down year to date?

Mr. T. Srinivas Rao - Chief Financial Officer

No, actually whatever surplus cash is there that has been already deployed by repayment of the loans in the last 6 months and with the new plans getting operational by the end of 2015, we don't see there is any scope for reducing the working capital in the business and the current level of working capital will be maintained.

Mr. Kunal Banerjee - Brigade Capital

But what was free cash flow in the first half, can you give us a sense?

Mr. T. Srinivas Rao - Chief Financial Officer

Around US $45 million for the half year.

Mr. Kunal Banerjee - Brigade Capital

And there was no working capital, there was some working capital contribution in that?

Mr. T. Srinivas Rao - Chief Financial Officer

Not much as such.

Mr. Kunal Banerjee - Brigade Capital

So if working capital was expected to be flat and earnings maybe down a bit from this record of Q2 why shouldn't you be generating some positive free cash flow in the second half?

Mr. T. Srinivas Rao - Chief Financial Officer

No, but the profit that is generated in the business is there because we don't expect any change in the working capital.

Mr. Kunal Banerjee - Brigade Capital

Right but then everything else is flat and did generate free cash flow in the first half. Why would you not be generating especially if your working capital level is flat?

Mr. Jagan Mohan Reddy - Managing Director

We have to actually invest our balance funds but we have two capital projects that are going on in Russia as well as in US in Chalmette project. So we have higher CAPEX, actually all the CAPEX is loaded towards the second half of this year. So we will not have sufficient cash flow to be able to retire any debt in the second half.

Mr. Kunal Banerjee - Brigade Capital

Okay, understood. Thank you very much.

Mr. T. Srinivas Rao - Chief Financial Officer

Thank you.

Moderator

Thank you. The next question is from the line of Mr. Rukun Tarachandani from Kotak Portfolio. Please go ahead.

Mr. Rukun Tarachandani - Kotak Portfolio

Hi, just trying to understand is there a target debt level that the company is looking at....

Mr. Jagan Mohan Reddy - Managing Director

Can you speak up please?

Mr. Rukun Tarachandani - Kotak Portfolio

Yeah, just trying to understand is there a target debt level that the company is looking at. I mean you have mentioned I think a target of net debt to EBITDA of 3 times but in terms of absolute numbers is there a target debt level that you can target?

Mr. T. Srinivas Rao - Chief Financial Officer

The plan is to reduce the debt by minimum of $25-50 million a year that's what we are aiming for. Over a period of time it will come below billion dollars and $900 million.

Mr. Rukun Tarachandani - Kotak Portfolio

Right, okay. And the Russian project how much do you expect that will add to your revenues and EBITDA from the next year onwards?

Mr. Jagan Mohan Reddy - Managing Director

At this point of time we cannot comment on that but once it comes the operations we will be able to provide some, hopefully some better answers on that. But at this point of time we cannot provide any guidance from the project that is yet to come in operations.

Mr. Rukun Tarachandani - Kotak Portfolio

Just last question, coming back to the margins from the carbon business, you mentioned that the realisations fell Year over Year quite drastically. However still your operating margins have gone up by almost 300 basis points. So just trying to understand how sustainable are these current margin levels?

Mr. Jagan Mohan Reddy - Managing Director

First thing you have to understand is that we are more of a converter so what happens is in our raw material prices and finished product prices kind of move in tandem. Basically in good markets your margin improves and in bad markets the margin contracts. Based on that you will sometimes see higher margins in terms of EBITDA because on the lower sales prices. But generally we try to, our goal normally is to try to match margins by improving the prices and also to cut down our raw materials cost. And I think this part is mostly we are able to do that by reducing raw material cost by using innovative methods of blending materials.

Mr. Rukun Tarachandani - Kotak Portfolio

Right. Okay, thank you.

Mr. Jagan Mohan Reddy - Managing Director

Thank you.

Moderator

Thank you. Ladies and gentlemen that was the last question, I now hand the conference over to Mr. Sreesankar for closing comments. Thank you and over to you sir.

Mr. Sreesankar – Prabhudas Lilladher

Thank you Jagan, thank you Srinivas Rao, thank you Henry....

Mr. T. Srinivas Rao - Chief Financial Officer

Mr. Sankar, Mr. Jagan will give some closing remarks.

Mr. Sreesankar – Prabhudas Lilladher

Okay, please go ahead Jagan.

Mr. Jagan Mohan Reddy - Managing Director

Thank you everyone for participating in the call.

We are now focusing on timely completion of all the capital projects under execution; integrating our European and US business to optimize overheads cost and re-align product mix to improve the operating margins. The Company is evaluating options to refinance the debt to reduce interest cost. In this way, while industry and market are uncertain, with our internal efforts, we will be able to withstand the market pressure.

Thank you once again.

Moderator

Thank you very much. Ladies and gentlemen on behalf of

Prabhudas Lilladher Private Limited that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.

Mr. Sreesankar – Prabhudas Lilladher

Thank you.

Moderator

Thank you.

Mr. Jagan Mohan Reddy - Managing Director

Thank you.

END.

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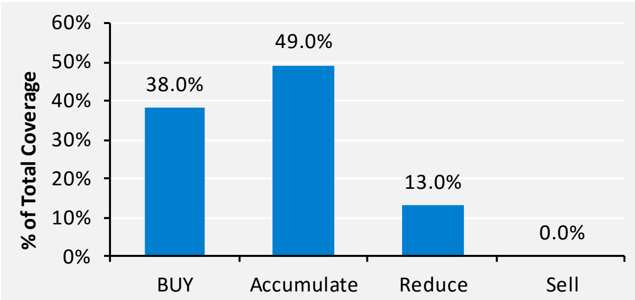
Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly