RAIN INDUSTRIES LIMITED

RIL/SEs/2017 May 10, 2017

The General Manager Department of Corporate Services **BSE Limited** Phiroze Jeejeebhoy Towers Dalal Street, Fort Mumbai-400 001	The Manager Listing Department **The National Stock Exchange of India Limited** Bandra Kurla Complex Bandra East Mumbai – 400 051

Dear Sir/ Madam,

Sub: Transcript of Earnings Conference Call.
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 Un-Audited Financial Results for the First Quarter ended on March 31, 2017.

This is for your information and records.

Thanking you,

Yours faithfully,
for Rain Industries Limited

S.V.R. Reddy

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Q1-CY17 Post Results Earnings Conference Call Transcript
May 5, 2017 @ 17:30 Hrs (IST)

MANAGEMENT:

Mr. N. Jagan Mohan Reddy -- Managing Director, RAIN INDUSTRIES LIMITED
Mr. T. Srinivasa Rao -- Chief Financial Officer, RAIN INDUSTRIES LIMITED
Mr. Gerard Sweeney -- President, RAIN CARBON INC
Mr. Guenther Weymans – Chief Operating Officer, RAIN CARBON INC
Mr. Ryan Tayman -- Vice President, Investor Relations, RAIN GROUP

PARTICIPANTS IN Q&A SESSION:

Mr. Pavan Ahluwalia - LABURNUM CAPITAL
Mr. Sureddy KR - MERGERSINDIAINFO.COM
Ms. Janvi Shah - RELIANCE MUTUAL FUND
Mr. Kunal Baneerjee - BRIGADE CAPITAL
Mr. Varun Suthar - MENTOR CAPITAL
Mr. Jonathan Tanner - CREDO CAPITAL
Mr. Bhavesh Chauhan - IDBI CAPITAL
Mr. Sandip Baid - QUEST INVESTMENT
Mr. Ritesh Shah - INVESTEC CAPITAL
Mr. Zeeshan Bhagwan - INVESTEC CAPITAL

Moderator:

Ladies and gentlemen good day and welcome to the earnings call of the Rain Industries Limited to discuss the unaudited financial results for the first quarter 2017. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ryan Tayman, Vice President, Investor Relations for the Rain Group. Thank you and over to you Mr. Tayman!

Ryan Tayman:

Thank you, Good Evening everyone. I welcome all the participants to the First Quarter 2017 Earnings Conference Call of RAIN INDUSTRIES LIMITED. Speakers on today's call are Mr. N. Jagan Mohan Reddy, Managing Director of RAIN INDUSTRIES LIMITED, Mr. T. Srinivasa Rao, Chief Financial Officer of RAIN INDUSTRIES LIMITED, and Mr. Gerard Sweeney, President of RAIN CARBON INC.

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 located 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. With that, I would now request Mr. Reddy to provide an update on key developments in the RAIN Group.

Jagan Mohan Reddy:

Thank you Ryan and good evening to all the participants. Beginning on slide 3, in the First Quarter of 2017, RAIN has achieved Consolidated Revenues of ₹25.2 Billion; Consolidated Adjusted Operating Profit of ₹4.4 Billion; and Consolidated Adjusted Net Profit of ₹1.0 Billion. First Quarter of 2017 improved significantly compared to First Quarter of 2016 due to contributions from new capital projects and general market improvements that increased volumes and realizations in the Carbon and Chemicals segments. However, there is an offset from the Cement segment due to lower demand in its core markets.

This performance improvement is the result of three strategic initiatives aimed to de-risk and de-commoditize our businesses over the last year. First and foremost, our coming together under one leadership group in the Carbon and Chemicals segment, has allowed us to drive costs out of the businesses by synergizing the commercial, finance, logistics and operations areas. We are also reaping positive results from the strategic capital investments made in our calcination and distillation businesses allowing us to out-perform competition from a cost perspective globally. Lastly, the investments made in our specialized high value products such as CARBORES®, phthalic anhydride or low PAH sealer base are driving more sustainable and diversified earnings overall.

On slide 4, we have highlighted 5 key capital projects that the Company had completed in the last few years. We are pleased to inform you that these projects have been stabilized and operating as per their planned schedules. Our Russian Coal Tar Pitch Facility, which sold 47.6 thousand tons of CTP and Other Carbon Products in the First Quarter, will be ramped up to operate at 75% of its Capacity during 2017. The Flue Gas Desulfurization plant added to our Chalmette calciner in the US has enabled production rates to return to normal and provides flexibility to produce High-Sulphur CPC to facilitate blending. The Indian Blending Facility built in Vizag is allowing the Company to meet the increasing demand from Indian Aluminium smelters as they steadily increase their production capacities. The 7MW Waste Heat Recovery power generation facility constructed at our Kurnool cement plant began operations and started contributing to power savings during the quarter. The CARBORES III reactor at our German distillation plant is now stabilized and ramped up to exceed planned production in CY17 due to increased market demand for this environmentally friendly pitch product.

Each of these projects has contributed to the Company's first quarter results and the year over year improvements. It is because of the success of these projects that we are reasonably confident of the Company being able to achieve the desired results from its new projects announced on the next slide.

The first new project is the construction of a new Hydrogenated Hydrocarbon Resins Plant in Uithoorn, Netherlands to produce New Generation Hydrocarbon Industrial Resins. The plant will be able to produce up to 20,000 metric tons per annum and should enable us to capture the increasing demand for Industrial Resins from the Adhesive, Tyre and Coatings industries. The estimated project cost is €14 million and we expect to commence operations by the end of 2018.

Further considering the large volumes of Poly Propylene Woven Sacks used for packing the material in our Cement Business and Indian CPC Business, we are setting up a Packing Material manufacturing unit with a capacity of 6 million bags per month in Mahaboobnagar District of Telangana State. The estimated project cost is ₹ 320 million and we expect to commence operations by the end of 2017.

Now Gerry Sweeney will take you through the industry developments in next slide, Gerry.....

Gerard M Sweeney:

Thank you Jagan and good evening everyone it is a pleasure to speak with you all again, in Slide 6, in the upper left bar chart, you can see Aluminium demand is expected to grow at 4.5% YOY in 2017 with a CAGR of 3.7% over the four years from 2016-20. Like-wise, Aluminium production is expected to expand to meet this continued demand growth. On the upper right, there is continued positive movement on the LME aluminium price, trending above $1900 per MT. Most bullish is the continued declining LME inventory levels which supports the upward trajectory of Aluminium prices long term. Current market expectations are for the LME Aluminium price to break $2000 ton in the near future. The lower LME Inventories, higher Aluminium prices, coupled with environmental regulations impacting Smelting Cost for Chinese Aluminium smelters, has lead to bullish discussion among Aluminium majors to re-start idle Smelters in North America and Europe in the near future.

Fuel Oil prices in the First Quarter 2017 continued on an upward trajectory, having now increased by 127% since Q1 2016. Commodities such as Benzene and Ortho-Xylene have followed a similar increasing price trend which are a positive sign for our "Other Carbons Products" such as the BTX and Carbon Black lines which are indexed to these commodity prices. The positive price movements seen in the markets and increased demand caused by the implementation of environmental restrictions within China are both contributing to our volume growth compared to the corresponding quarter of the prior year, as seen on the next slide 7.

Sales volumes improved overall in Q1, reflective of contributions from the new projects and increased production throughput to meet increasing market demand. CPC volumes increased 20% compared to prior year primarily related to the Indian blending plant implementation. CTP volumes increased 21% compared to prior year. The new CTP plant in Russia accounted for 80% of the increase, and additional throughput at our heritage distillation plants accounted for the remainder. Our other Carbon Products segment volumes increased 34% compared to prior year, driven by increased distillation of both coal tar and crude benzene. Traded GPC volumes were greatly reduced as this is a low margin business which is no longer a core focus for us.

Revenue from the carbon business in First Quarter 2017 is ₹ 18.11 Billion which is 22% higher than prior year; this is a result of increased volumes across all products coupled with increased realizations in our CTP and other Carbon Product lines. Through our cost saving initiatives, investments in our high quality product lines, commencement of the third CARBORES® reactor and full quarter benefits from Russian Severtar JV, the operating profit from the carbon business in First Quarter 2017 is ₹ 3.75 Billion which is 81% higher than corresponding quarter of prior year. Turning to slide 8 on the Chemicals Businesses.

The Chemical segment is benefiting from strong demand across all industrial segments, especially from the Adhesives, Tire, Coatings and Concrete sectors. These industries have a strong demand for high quality resins, polymers and superplasticizers. The Aromatic Chemicals product line benefited from both volume and price increases while the Resin and Modifiers business saw volumes increase which offset the price declines related to product mix. In total, Chemicals had revenues of ₹ 4.57 billion in the First Quarter 2017, 6% higher than prior year and operating profit is ₹ 0.5 billion or 27% higher than prior year. This concludes the performance update on the Carbon and Chemicals segments and I would now like to hand the call to Jagan to address Cement performance on slide 9.

Jagan Mohan Reddy:

Thanks Gerry, Volumes from the Cement segment in First Quarter 2017 were lower compared to prior year across the major markets of Karnataka, Andhra Pradesh and Telangana. Due to this, revenue from Cement was ₹ 2.5 billion in the First Quarter 2017 or 8.5% lower compared to prior year and operating profit of ₹ 0.1 billion declined when compared to prior year by 48%. Increased costs are the primary factor reducing operating profit year over year. We are working towards reducing costs by various efforts, the largest of which is the installation of the Waste Heat recovery power plant at our Kurnool facility which will enable the plant to produce approximately 7MW of electricity from the waste gases generated in the manufacturing process. All the electricity generated by this unit will be consumed at the plant itself. On a positive note, we have seen increased market demand compared to the previous quarter and anticipate this demand continuing throughout the year due to infrastructure and housing projects. Now I would ask Srinivas to update you on the financial position of the company, Srinivas

Srinivasa Rao:

Thank you Sir and a warm welcome to all the participants. Turning to slide 10 I would like to update you on the debt position of the company. During the first quarter of 2017 the Company embarked on the first phase of its refinancing project by issuing new debt notes of US$550 million in March 2017 which will mature in April 2025. The funds raised were utilized to tender or redeem all 2018 US Dollar Notes of US$ 373 million due in December 2018, part of the 2021 US Dollar Notes of US$ 115 million due in January 2021 and other term debt. The interest rate is favorable compared to the retired debt and the overall results of the first phase of refinancing were positive. This initial effort has pushed back the first maturity date from December 2018 until January 2021 providing the company ample time to continue exploring options for refinancing the remaining debt at an optimal price and further extend maturity. The Company ended the Quarter with a Net debt position of US$ 951 million which is a slight increase compared to net debt as on December 2016; primarily related to the payment of debt financing costs which reduced the cash position of the Company. With US$ 130 million of cash on the balance sheet and unused credit limits of US$ 163 million; the company is comfortably placed to meet its obligations and continue to make the required investments to meet market demands. Thank you and I will now turn the call over to the operator for the questions and answer session, over to you operator.

Moderator:

Sure. Thank you very much. We will now begin with question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. We have the first question from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia:

Thank you very much. I have two questions. One is on capacity utilization across the business, so we are now up to a fairly healthy run rate in EBITDA and I think on previous calls you said we are getting closer to full capacity utilization. I wanted to understand both on the CPC, CTP, and chemical side, what kind of capacity utilization are we running at, what is the potential to increase revenue and operating profit without doing additional capex from here because you do not really have any major capex plan and my second question pertains to the chemicals vertical obviously benzene notations have been moving in a more favorable direction for the first few months of the year, I do not know what the linkage is between benzene and crude, so I do not do know what your outlook is on benzene notations going forward and to what extent does the volatility in crude translate into volatility in benzene notations. We have seen a big improvement in chemical EBITDA margins obviously. I am wondering whether we can sustain this kind of EBITDA or is it likely to be subject to crude fluctuations.

Gerard M Sweeney:

This is Gerry. I think it is a good question. It is dealing with the capacity portion is the first part of your question. We are actually running from both a calcination and distillation perspective. We are essentially budgeted and we are currently running at full capacities, so our challenge this year is making sure that we manage our unplanned downtime that we execute our maintenance on time in order to not lose volume because we do not have the ability to make it up. With that said that really covers the calcination and tar distillation side. On the chemicals business, while we are tapped out in distillation from the tar input side, we do have the ability for more petro feed in our distillation, which will provide more feedstock for our resins and modifiers and aromatic chemicals and super plasticizers business, the polymer business. We have about 150,000 tonnes of additional capacity. What we are trying to do now is with the existing tankage that we have figure out how much we can run without having to add tankage, but the long-term strategy is to max out on that 150,000 tonnes of petro feed additional capacity that we have. Now that would mean that from a volume perspective with our existing capacities, we would be tapped out, but I still think the market will provide an opportunity for expansion of our earnings and that will from the fact that in our coal tar pitch and in our CPC product lines, we really have gotten to a capacity constraint scenario where almost everyone is running at their capacity yet there is more demand for product, so that will push us towards a better earnings opportunity as we go forward with those products providing more earnings opportunity for us.

Pavan Ahluwalia:

Nobody in the industry is adding extra capacity right now, so it is not just you, the entire industry is at capacity, so as aluminum grows organically at 4% or whatever it grows whether it is this year or next year at some point, you start to get pricing power.

Gerard M Sweeney:

That is correct. I do not want to speak in absolute terms for the entire world, but I would say that I am highly confident that the global calcination industry is running probably in the neighborhood of 96% to 98%, so extremely tight. I can tell you we are a net buyer of CPC if we can find it. With that said, there was another part of your question that I potentially missed.

Pavan Ahluwalia:

On the benzene, we had a healthy EBITDA on the chemicals front this quarter and that has been because as you pointed out in the last call benzene notations have been moving upwards, I do not know how much that is affected by the volatility we have seen in crude. Do you expect benzene notations to jump around and consequently do you think this kind of EBITDA per tonne in chemicals can be sustained or are we looking at a temporary peak in EBITDA per tonne.

Gerard M Sweeney:

Chemicals remember, liquid product to still of a lesser amount than our coal tar pitch, so I am not too worried about the way that it is affecting. Specific to your comment on benzene, benzene has had a large run up well beyond due to curtailments in China both from a refining end, from a coking perspective, we have seen run ups in benzene prices globally far outstripping that of crude. Now we did see a correction in April and into May now on the benzene price. It has come back down again. That is not going to have a material impact on us and the overall movement in crude I would say, we are not too afraid of that. If you remember from earlier calls, we have short correction periods especially on our liquid products. We always calculate on our raw materials on our tar pricing. What essentially is the value for the demand for distillation related to the end product values, so we will be able to reset based on benzene movements as far as our raw material prices to some extent, but right now I am not worried about that materially affecting our earnings because we are in a very strong commodity cycle that I think will allow us to outstrip any corrections we see in one product.

Pavan Ahluwalia:

Thank you.

Gerard M Sweeney:

You are welcome.

Moderator:

Thank you. The next question is from the line of Sureddi Kr from MergersIndiaInfo.com. Please go ahead.

Sureddi Kr:

Congratulations for well-timed successful refinancing of the debt at attractive rate and more important the leadership team deserves kudos for creating shareholder wealth after a long time. Coming to the query, my query is do we have the cost leadership that is how our Rain EBITDA margins compare with our nearest competitors in CPC and CPT.

Jagan Mohan Reddy:

Yes. I can say that compared to all our competition or the major competitors, I think we are on a lower cost curve compared to anyone else and that cost cutting is actually part of our routine thing. We have this operation excellence and commercial excellence program and we have projects that work on a constant reduction in various costs, so that is a regular thing that is how we do that. Yes we are I think probably cost leaders also compared to our competition.

Gerard M Sweeney:

I would agree and what allows us to do that in addition to what Jagan just said about our initiatives in our plant cost specifically about product cost, also the investments that we have made in flue gas desulfurization are very strong differentiating fact in our ability to use lower quality products as our raw material feeds. I believe Guenther you are also on the line are not you? Guenther.... would you like to make any statements as our Chief Operating Officer?

Guenther Weymans:

We have the general concept of operational excellence that we have implemented for many years we are now in phase 9 of operational excellence basically looking for any process optimization and cost cutting in lean operations that has contributed significantly last year and will continue to contribute this year. On top of that using our internal process technology groups, we are looking for creep capacity and additional methods to increase our reliability to the highest edge. We believe with that we can bottleneck smaller capacities here and there and to run our production units very stable, so may be that summarizes it.

Sureddi Kr:

Thank you. My second query is with reference to cement. Little surprising the cement volumes and margins have fallen when the sector as a whole is doing well and especially companies catering to AP, Telangana, Karnataka and the markets where we operate. Any specific reason other than the volumes falling into?

Jagan Mohan Reddy:

Actually the last quarter pricing was not good. The prices have improved only from April onwards owing to the summer demand, so you will actually see the improved working going forward, so hopefully this quarter should be a lot better than what you have seen, because the first quarter was for various reasons it was not so good.

Sureddi Kr:

Thank you and once more appreciation for the leadership team for all the initiatives.

Jagan Mohan Reddy:

Thank you so much

Moderator:

Thank you. We have the next question from the line of Janvi Shah from Reliance Mutual Fund. Please go ahead.

Janvi Shah:

Can you tell us what are the trends in the raw material prices that is actually GPC, we understand that CPC is in an extremely tight situation, but I just wanted to know the spreads in the business with reference to the GPC pricing?

Gerard M Sweeney:

From GPC and CPC pricing perspective, I would say for the first quarter our raw material prices we saw modest increase in our GPC prices. We saw a greater improvement in our CPC prices again consistent with the trend that we have been talking about a stronger demand worldwide. Going forward to give you a little insight I would expect GPC prices because of strong demands to feed the calcining industry will continue to upward, probably even stronger than we saw in the first quarter, but I do not have much concern about our ability given the market dynamic to pass any cost increases along to the consumer as we do that.

Janvi Shah:

Okay and any inventory lag as such on the raw material side that we would have?

Gerard M Sweeney:

No, we do not have any inventory lag. We are comfortable with our inventories. We actually have been focusing because of looking at stronger demand and because of the expectation of running out full, we have been trying to ensure that we keep our inventories up, but by and large when we are in an environment of strong demand and the expectation that inventory prices will go up, we want to buy as much product today as we possibly can rather than buying it tomorrow when the price will be higher, so we are not worried about any inventory overhangs at all. We have left that market scenario thankfully back in the first quarter of 2016.

Janvi Shah:

Okay, alright. Thanks.

Gerard M Sweeney:

You are welcome.

Moderator:

Thank you. The next question is from the line of Kunal Baneerjee from Brigade Capital. Please go ahead.

Kunal Baneerjee:

Thank you. Just one question on CPC and other on the water white resin project that you have. Maybe I will start with the water white resin project. I was just looking at some balances and it seems like on the C9 resin side you have this last year shipped about 10,000 tonnes and so the design for this plant is 20,000 tonnes, so are you going to be hydrogenating anything other than your C9 streams and the question there would be are you entirely converting your C9 resin into water white resin and the reason there has been some competitive pressure on hydrogenated part of that business I get from Asian resins. So can you just help me to understand is the plant overdesigned right now or are you going to be also hydrogenating some of your coal tar resins?

Gerard M Sweeney:

Good question Kunal. We produce some of our own fractions for that business as well as we buy in Europe for that and we have two players that essentially are taking the fractions. We have the Duisburg plant and then we have our Uithoorn Netherlands plant. What the water white project is designed to do is really take the Netherlands plant that is servicing the low-end commodity price mostly the printing ink industry which is highly commoditized, heavily competed against with the Chinese and Asia in general and to take that product and ship that raw material into this plant. Now we do have more capacity in this plant then we currently would be running and the idea is with the 20,000 tonnes we will add feed because as I mentioned in my discussion, we are looking at essentially adding Petro feeds to the overall capacities, which we have the capacity to do with our existing infrastructure. That will add more feed along those lines and our aromatic chemicals division will be able to take and process that C9 and produce the feeds for it. So that is really part of the overall strategy where we will ramp up to the 20,000 total, it is not what we have now, but we do have the capability of producing more of that product in our own operation. Does that makes sense for you?

Kunal Baneerjee:

Yes, understood. Eastman Chemicals are in that business and they say it is like 20%, 25% EBITDA margin business, is that reasonable? Do you guys see that as like a 20%, 25% EBITDA margin business?

Gerard M Sweeney:

That is a good yardstick for us.

Kunal Baneerjee:

And then on CPC Gerry Oxbow has been saying here that first four months of the year CPC spot prices have moved up 30% and actually they have a pretty positive view into 2018, so they are considering restarting wiring and so I am just wondering whether you have some options at Moundsville or is that totally dismantled and then just related to that can you increase the spot exposure that you would have typically to take advantage of the spot contract disconnect?

Gerard M Sweeney:

I guess to give you a little bit of colour of what we have seen taking place in the market Kunal and you know from earlier comments we talked about the tightness in China in the fourth quarter of last year and that tightness really just continued in the first quarter of this year and what really resulted is, Asia has taken off first from a pricing perspective, we have seen significant price advancement in Asia which is now spreading whatever direction you want a call it east or west, but around the world from Asia. So the prices are moving along. Now the idea you talk about is where is spot opportunity, where is not spot opportunity, we were already expecting to run full this year, so we have the commitments to talk to you about the regions and how they work, basically the direct sales add up our North American operations or from the CPC side are all they are predominantly semi-annual prices and some may be a quarter of them or quarterly prices. Out of India, in our Asian markets, all of that it is very short term prices, so it is quarterly down through spot monthly tight pricing. So we are able to in the Asian market product that is so in India and in places around India, we are able to move more dynamically out of North America with direct sales, will be advancing slower, but the market is moving along for us overall. Again what I would say is something we are feeling very good about is that the market has developed very nicely with the million tons of blending capability that we put in India and we are advancing our market share in India, the 250,000 tons we have slated from the US into India this year is going to be very well placed into the lead pricing market globally.

Kunal Baneerjee:

And Moundsville?

Gerard M Sweeney:

Yes, the Moundsville perspective, I am smirking you cannot see me I am smirking a little bit, we do see the bullishness of the market going forward from a projected perspective and we have evaluated. We have had team meetings related to Moundsville, but quite honestly we do not see the environmental restrictions at Moundsville and the required investment leave us saying we maybe better off looking at expansion capabilities at our existing facilities in the US gulf because of the proximity to the raw material supply and that is what we are really starting I should not say starting, we had plans on the shelf and we are dusting them off and revisiting them now.

Kunal Baneerjee:

Thank you.

Gerard M Sweeney:

Thank you Kunal.

Moderator:

Thank you. The next question is from the line of Varun Suthar from Mentor Capital. Please go ahead.

Varun Suthar:

Good evening Sir. I am just going to ask you a simple question. Currently as the RERA Act is coming into the economy, how it is going to impact on our cement segment?

Jagan Mohan Reddy:

With RERA Act coming in, basically we think what is going to be happen, the larger builders will actually be the guys who will be building more and there will be a temporary gap, I would say that that is going to impact cement business little bit on a down side, but I think after maybe once this current inventory gets over with I think the real estate industry in India should grow quite considerably going forward because it will become more regulated and it should improve quite a bit, but temporarily yes, there will be a little bit of blip but in our case majority of that we never sell to any builder, actually we sell only to the retail industry, so we should not get impacted, but generally yes, I would say that there will be little bit blip in cement sales, otherwise we should be fine.

Varun Suthar:

So would there be any impact on the project of packing material plant that would be used for that captive consumption of cement business?

Jagan Mohan Reddy:

No, because we are only putting up for 60% of our capacity, so we are fine.

Varun Suthar:

Okay. It would be 100% captive consumption or outside industry sell?

Jagan Mohan Reddy:

No, because it will be 100% captive, we are not planning to sell anything, because we will be consuming that between our cement plants and our calcining plants.

Varun Suthar:

Okay Sir, thank you.

Jagan Mohan Reddy:

Thank you

Moderator:

Thank you. The next question is from the line of Jonathan Tanner from Credo Capital. Please go ahead.

Jonathan Tanner:

Hai guys ……. Congratulations on the quarter in the refinancing. Some of the question was previously covered by Kunal but I just wanted to explain on a little bit with CPC trading where it is now and fairly flat GPC cost, when do you expect that additional margin to hit the income statement based on your contract negotiation, this is second quarter, almost second half.

Gerard M Sweeney:

We will see if incrementally it flows through Jonathan in the year which as I mentioned is a little more immediate in the first quarter in India it will pickup in the second quarter as well, but if you are looking for probably impactful difference, it would be kind of third quarter.

Jonathan Tanner:

Okay. Thank you. That is useful Gerry and then just a second question, just more of a board of a question about capital allocation and capital structure, now with the refinancing done, how are you guys thinking with regards to your plans to do a US listing, where are you guys in the cycle and how do you model CPC going forward?

Jagan Mohan Reddy:

We are just seeing the turnaround in the business, so we are continuing all the options and once you know there is little more clarity, we are just looking at it because we just wanted to now concentrate on the business a little bit, adding some capex, and maybe adding some organic capacity, but eventually we will think about listing on US stock exchange, but at this time we want to concentrate on the business a little bit because now that refinancing also is done, I think it is very critical because the world needs carbon and I think as leading producer of both CPC and distillate products like CTP I think we have to look at how the aluminium industry is going to get carbon, so we want to spend a little time on that and probably listing, we will think about it little later.

Jonathan Tanner:

Anything it is a sort of a few years of solid earning trajectory before we really look at that.

Jagan Mohan Reddy:

I would say that at this time we have not made any decision, but yes that is constantly on our radar again.

Jonathan Tanner:

Alright, thanks very much.

Jagan Mohan Reddy:

Thank you Jonathan.

Moderator:

Thank you. The next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan:

Sir .. On your capex, now that are planning to do some capex on the Hydrogenated plant, I thought once you were out of your words business turning around you would add up more CPC or CTP capacity given that you are operating at full utilization and as you also pointed out that outlook is very positive, so I thought you might be adding CPC, CTP capacity, so what are management thoughts on that?

Jagan Mohan Reddy:

We get started... this is the first project, we never said we are stopping with this. We are actually pursuing a lot of options and hopefully I think you will hear about our future expansions probably in the next call or thereafter because we are also talking to the various governments in both US and in India to see how we can speed up this. So once we get more clarity, we will share with you.

Bhavesh Chauhan:

Okay and in this quarter, the CPC volumes were at 0.4 million tonnes from 0.5 million tonnes in the December ending quarter. So I was just wondering why the volumes were lower in CPC?

Jagan Mohan Reddy:

Mainly because we had some maintenance activities in one of our plant, so that has actually impacted sales and one large shipment actually switched from March 31 to April first week. So that was the reason why there was slippage but overall I think we should be able to recover it in this quarter going forward, so it should not be an issue.

Gerard M Sweeney:

Just to clarify your earlier question, we still have even before we physically add capacity Jagan.... just to be clear, in both coal tar distillation and calcination, we are focusing now remember, we still have 70,000 tonnes of capacity available to us from Severtar. We have not fully flexed our distillation capabilities there and the overall feeling is both in our existing facilities where we say "we are running full" Guenther and his team really on the operations side are pushing to get all the capacity creep out that we possibly can and we will be doing that. So we have even while we are looking at new projects, we are looking at really optimizing our plants, minimizing our maintenance turnarounds or accelerating them I should say which we can do by spending more money to shorten them. In order to get 100,000 tonnes of capacity out of each of the businesses, calcination and distillation, so we still have things available to us within our own facilities with creep as well as the Severtar capability side. I do not want to give the wrong impression that we are absolutely tapped out. We still have things to do while we institute now some green or brown field expansion to add capacity.

Bhavesh Chauhan:

Okay. Thank you Sir.

Gerard M Sweeney:

Thank you

Moderator:

Thank you. The next question is from the line of Sandip Baid from Quest Investment. Please go ahead.

Sandip Baid:

Thanks for the opportunity. A couple of questions. One, depreciation for us used to be about Rs.80 Crores to Rs.90 Crores per quarter. In this press release, I see it moving to about Rs.130 Crores, Rs.140 Crores, is there some regrouping that has happened here?

Srinivasa Rao:

Basically these accounts are prepared as per Ind AS, accounting principle between Indian GAAP and Ind AS are different and whatever numbers that we are reporting here that takes into consideration two factors. Factor one is the new capacity expansion that we implemented like Carbores III and the Indian blending facility etc, which was completed about the end of 2016. So that has contributed for incremental depreciation, also periodical maintenance whatever we do in US GAAP and Ind AS it is always treated as a capital expenditure, something as deferred revenue expenditure amortized over two or three years whereas in Indian GAAP it is always treated as part of routine repairs and maintenance. So that is why there is a difference between the numbers what you have observed in the prior years and the numbers what you are saying in the current quarter.

Sandip Baid:

Now we have a run rate of about Rs.500 Crores to Rs.550 Crores of depreciation. There are net block is about Rs. 3,300 Crores, so it is almost 15% or more is rated which we are depreciating our assets?

Srinivasa Rao:

This is the Ind AS, what numbers you have seen in here in Indian GAAP. You will be seeing increasee in the operating profit also.

Sandip Baid:

Okay. My second question was on our product market. Do we make any product, which goes into lithium batteries?

Srinivasa Rao:

The Carbores is the product what we are getting...

Jagan Mohan Reddy:

May be actually Guenther he can talk about anything can do about lithium or what are the products that can be used.

Guenther Weymans:

As you know Carbores is a low-PAH product that is used in many refractory and multifunctional refractory applications as well as in lithium-ion batteries and in other areas. We have experienced a significant drive from the markets that are basically pulling out of some pitch products and moving towards Carbores that is why after startup of our third reactor, we are fully loaded already and basically supplying the product. To give a very simple example, we have for instance proprietary technology with which we are going into application on magnesia and dolomite carbon refractory bricks for functional refractories. We have co-operations with several selected refractory producers that are developing this together with us. They are in the sampling mode of expanding further; so all this has significantly driven and is continuing to drive our Carbores business. We are looking at possibilities to further bottleneck our existing units and to support the market growth.

Sandip Baid:

Again you are seeing significant demands for these products going forward.

Guenther Weymans:

Yes.

Sandip Baid:

Lastly while our margins on the chemical business has improved year-on-year, but when I compare it with Q4 of last year, the margins has come down significantly. So I just wanted to get some sense on what should be the average margins that once should assume for the chemical business going forward?

Srinivasa Rao:

I think low teens having 12% to 14% is what is sustainable margins in the chemical business. For December 2016 quarter, certain provisions that were created throughout the year has been reversed based on the discussion with auditors in that they are no longer required, that is why the 22% what you are seeing in December 2016 is not sustainable but I should say somewhere between 12% to 14% is sustainable in the chemical business.

Sandip Baid:

Thank you.

Moderator:

Thank you. The next question is from the line of Ritesh Shah from Investec Capital.

Ritesh Shah:

Hi sir.... Congratulations for a good performance. Sir my question is on the GPC, CPC spreads, how do you see in China and rest of the world and secondly how do you see this moving specifically the Chinese government has indicated for potential shutdown in four provinces from October to March?

Gerard M Sweeney:

From the GPC, CPC spread specific to China which seem GPC and CPC prices going up, because China has reached really a critical mass as far as their ability to feed the demand for CPC from the burgeoning aluminum sector. Now, the second part of your question is the real crystal ball that you will have, what will happen in the future. The expectations are which really fueling the LME over 1,900 right now. The expectations are that for pollution reasons, these major populated provinces in China will be ordered to curtail from October, November timeframe to March, it is during the winter season. It remains to be seen how much they actually curtail from the aluminum smelting perspective and then the expectation would be the pollution concerns that they have in China are basically smogging SO2 emissions and so the impact of closing the smelters would be the same thing as the reasons why they would want the calciners to curtail as well, because the calciner can emit as much SO2 as the smelter can permit the operations very easily and so our expectation is although remains to be seen that the Chinese in ordering these curtailments would be ordering the aluminum smelters as well as the carbon producers in those provinces to be curtailing during those winter months. If that is the case essentially the tightness in china will even be more severe moving forward because there is more CPC production in those provinces than even smelting capacity demand. If that not the case then the Chinese situation could free up CPC, which would put them back as an exporter joining the market, we will have to see what happens.

Ritesh Shah:

Has there any notification been sent to calciners, so to our understanding it has only been sent to smelters?

Jagan Mohan Reddy:

No, actually from what we hear from the market is that actually it is the 30% as a matter of fact were the smelters and actually capacity to be brought down by 50% for the calciners. So anyhow we need to see how it works, but at this point of time this is what has been received.

Gerard M Sweeney:

That is what our Shanghai office really has advised us that of what the mandate is and of course what is mandated in China and what really happens is the real fly in the ointment.

Ritesh Shah:

That helps us. Gerard if you could please quantify how have the spreads broadly moved on a sequential basis in China as well as say ROW, I am specifically asking from a perspective of high sulphur and low sulphur pet coke given we would be in advantageous position over here?

Gerard M Sweeney:

I am not sure what do you mean by sequential basis?

Ritesh Shah:

That is the prior quarter and the current quarter, so Q4 CY2016 versus Q1CY2017, how have the spreads behaved?

Srinivasa Rao:

Ritesh actually we cannot quantify exactly the margin or the spread of the GPC, CPC because there are various factors, each customer specifications are different and for the same customers where we procure the GPC also will be varying because sometime we can get the material in particular grade of GPC from China where the freight cost would be only 20 dollars to 30 dollars, in particular whatever we may be getting from North America whereas the freight cost will go to 40 dollars to 50 dollars. In case our volumes are increasing; we expect that so we can get better margin.

Gerard M Sweeney:

The simple fact is we are not concerned especially looking forward we cannot give you any specific numbers, but realistically we are not concerned the better ability to recoup any GPC price increases in our finished product prices. We are easily out stripping them now and we expect that to continue.

Ritesh Shah:

Well, thanks.

Moderator:

Thank you. The next question is from the line of Zeeshan Bhagwan from Investec Capital. Please go ahead.

Zeeshan Bhagwan:

Thanks for taking my question. Sir, would you please provide us with the volume guidance or volume contracts that you will be doing over the next two years may be CY2017 and 2018?

Jagan Mohan Reddy:

As we said, we expect to operate at our capacity and that is all we can say, but we cannot be talking about anything in future, but we do expect to operate at our capacity.

Srinivasa Rao:

Q1 target can be maintained.

Zeeshan Bhagwan:

Okay and I had another question. What is the coal tar spread that is currently there prevailing in the market?

Gerard M Sweeney:

We did not give a specific spread information out. Again, if you look at the first quarter and the earnings that we have been able to realize, we are very comfortable with being able to maintain the volumes and the earnings moving forward.

Zeeshan Bhagwan:

Okay, any capex number that you will be doing over the next two years?

Jagan Mohan Reddy:

Actually as the capex whatever we want to do has been announced and if there is anything, we will keep you informed.

Zeeshan Bhagwan:

Okay, thank you.

Moderator:

Thank you very much. Due to time constraints that would be our last question. I would now like to hand the conference back to Mr. N. Jagan Mohan Reddy for closing comments.

Jagan Mohan Reddy:

The Company's first quarter results are positive and we believe that with our cost cutting measures in the prolonged down market cycle combined with our new streamlined business model coupled with improved market conditions, the company is well positioned to capture market opportunities and has positioned itself for a secure, strong and bright future. Thanks for participating in today's call and we look forward to speaking with you next quarter.

Moderator:

Thank you very much. On behalf of Rain Industries Limited that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.