RAIN INDUSTRIES LIMITED

RIL/SEs/2016 August 25, 2016

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 – Reg.
Ref : Scrip Code: 500339 (BSE) & Scrip code : RAIN (NSE)

With reference to the above stated subject, please find enclosed herewith Rain Industries Limited Transcript of Earnings Conference Call on Unaudited Financial Results for the second quarter ended on June 30, 2016.

This is for your information and records.

Thanking you,

Yours faithfully,
for **Rain Industries Limited**

S.V.R. Reddy

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Q2-CY16 Post Results Earnings Conference Call Transcript
August 16, 2016 @ 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. Kris Vanherbergen -- Chief Commercial Officer, RAIN CARBON INC
Mr. Ryan Tayman -- Vice President, Investor Relations, RAIN GROUP

Moderator:

Ladies and Gentlemen, Good Day and Welcome to the RAIN INDUSTRIES LIMITED Q2 2016 Earnings Conference Call. 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 handover the conference to Mr. Ryan Tayman -- Vice President for Investor Relations from RAIN Industries Limited. Thank you and over to you.

Ryan Tayman:

Good Evening everyone. I welcome all the participants to the Second Quarter 2016 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, Mr. Gerard Sweeney, President of RAIN CARBON INC., and participants in the question and answer session in addition to the speakers are Mr. Guenther Weymans, Chief Operating Officer, of RAIN CARBON INC., and Mr. Kris Vanherbergen, Chief Commercial Officer, of RAIN CARBON INC.

We will commence the call with opening remarks from Mr. Reddy providing an update on developments during the Second Quarter in the RAIN Group. He will be followed by Mr. Rao who will provide the highlights of the financial performance during the Second Quarter 2016. Mr. Sweeney will then provide an Outlook for the Carbon and Chemical business followed by a question and answer session where 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 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. I would now request Mr. Reddy to provide an update on the key developments in the RAIN Group.

N. Jagan Mohan Reddy:

Thank you Ryan. Good evening everyone and welcome to our Second Quarter 2016 Earnings Conference Call. I would like to start my discussion with a brief update on the key developments in the RAIN Group.

While the industry and macro-economic environment still remained sluggish, RAIN continued to maintain its leadership position in Second Quarter of 2016. The successful fruition of our strategic plans, projects and progressive business model have had a positive impact on overall performance of RAIN during the Second Quarter of 2016 especially in terms of cost optimization. As mentioned in our previous call, the initiatives taken at RAIN have allowed us to overcome challenging times in our end markets.

Our Russian Project has begun contributing to the CTP and other carbon products volumes and is performing reasonably well. Similarly, the Chalmette calciner desulfurization project in support of the Indian Blending business model has contributed to an increase in our CPC volumes. Strategically, as projected, the overall capacity utilization of our U.S. and Canadian facilities has improved during the Second Quarter of 2016. My colleagues on this call will provide you more details on the above mentioned improvements.

In the Second Quarter of 2016, RAIN has achieved Consolidated Revenue of ₹ 25.2 Billion; Consolidated Operating Profit of ₹ 4.4 Billion; and Consolidated Net Profit of ₹ 1.6 Billion. It is widely believed that the market quotations have reached the bottom of the cycle. Accordingly, the performance of the Company should gradually improve in the forthcoming quarters.

My colleagues will elaborate further when Srinivas takes you through the segment wise financial impact and when Gerry takes you through the factors that influenced our performance in the Carbon and Chemical businesses.

In the Cement business, during the Second Quarter of 2016, although there was an increase in sales volumes, the operating margins declined mainly due to lower quotations. However, the Company expects the cement market to improve going forward on the back of higher spending on infrastructure, roads and housing. The Company has completed commissioning of its 7 megawatt Waste-Heat Recovery Power Plant at its existing Cement Plant in Kurnool, India. It is currently under trial runs and will start contributing in the form of cost optimization in forth coming quarters.

I would now request Srinivas to provide highlights of the financial performance during Second Quarter of 2016.

T Srinivasa Rao:

Thank you sir ….. and a very warm welcome to all the participants in this call.

I would like to highlight the key performance indicators, on a consolidated basis:

Consolidated Net Revenue of ₹ 25,189 million during Q2 2016, a fall of ~3% compared to ₹ 26,100 million during Q2 2015.

Carbon Products sales volume during Q2 2016 is 795 thousand metric tons, an increase of ~11% compared to 714 thousand metric tons in Q2 2015. The increase is mainly due to the incremental volumes from Russian CTP Plant and incremental CPC from Chalmette FGD plant in conjunction with Indian CPC Blending Facility and partly offset by decrease in Pet coke trading. During Q2 2016, the average blended realization decreased by ~12%. Further, the Euro appreciated by ~7.5% and US Dollar appreciated by ~5.4% against Indian Rupee. Overall the fall in the average blended realizations including decline in exchange rates partially offset by increase in volumes led to a decline in revenue from Carbon Products business by ~2% in Q2 2016; as compared to Q2 2015.

Chemicals sales volume during Q2 2016 is 75 thousand metric tons, a decrease of ~13% compared to 86 thousand metric tons in Q2 2015. Due to decrease in trading volumes, the Chemical revenues in Indian Rupees decreased during Q2 2016 by ~12%. Further, improved realizations were offset by ~7.5% appreciation of Euro against Indian Rupee.

Cement revenue during Q2 2016 increased by ~3% as compared to Q2 2015. This is mainly due to the increase in volumes by ~9% partly offset by ~5% decline in realizations.

Consolidated Operating Profit for Q2 2016 is ₹ 4,441 million an increase of ~2% compared to ₹ 4,372 million achieved during Q2 2015; the increase is primarily due to an increase in sales volumes of Carbon Products resulting from operations of the new capital projects and other cost optimization initiatives implemented within RAIN Group.

Due to the aforesaid reasons, Operating Margins have increased to 18% during Q2 2016, compared to Operating Margin of 17% achieved during Q2 2015.

During Q2 2016, the Company had a Foreign Exchange Gain of ₹ 162 million, as compared to Foreign Exchange Loss of ₹ 147 million in Q2 2015. The Company has designated certain long term inter-company loans as Investments in non-integral foreign operations, as per Indian Accounting

Standard 11 with effect from July 1, 2015 and transferred foreign exchange losses / gains on reinstatement of such inter-company loans to Foreign Currency Translation Reserve. Accordingly, a foreign exchange gain of ₹ 154 million due to reinstatement of such inter-company loans have been transferred to Foreign Currency Translation Reserve during Q2 2016.

Finance cost during Q2 2016 is ₹ 1,513 million, an increase of 6% compared to ₹ 1,423 million during Q2 2015 due to the depreciation of the rupee against US Dollar and Euro and offset by decrease in debt through buy-back of Senior Secured Notes and making of scheduled repayment of debt.

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

Consolidated Net Profit during Q2 2016 is ₹ 1,565 million as compared to Net Profit of ₹ 1,451 million during Q2 2015.

The Company achieved a Consolidated EPS of ₹ 4.65 during Q2 2016 as compared to Consolidated EPS of ₹ 4.31 during Q2 2015.

I would now like to hand over the call to Mr. Gerard Sweeney to provide outlook of Carbon & Chemical business… over to you Gerry.

Gerard Sweeney:

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

As a Company, we are pleased with the performance of the group during Q2, and believe the results show the positive impact of the strategic investments made in our calcination and distillation businesses globally. The strategic investment in the Russian Severtar JV had an immediate impact on our performance, and complimented our North American strategy, executed over the last several years. Our timely investment in Sulfur scrubbing technology has created a market differentiated ability to process higher Sulfur cokes to control our costs, and is greatly aiding our India blending strategy. Also, investment in the PA and Carbores expansions continue to diversify our revenues, increase earnings and improve our performance overall. These investments over the last several years are now almost all complete, and we are focused on reaping the benefits.

In our CPC product line, the India blending strategy is driving our volumes in an otherwise dampened aluminum market. In fact, during the second half of 2016, we expect to bring all the U.S. plants to full production. With India Aluminum production projected to grow rapidly for the next several years, we are pleased with the prospects for continued growth in volumes for 2017 and beyond.

For those not on previous calls, the basis of the India CPC blending strategy is to ship CPC product from our US plants, and blend it with our Indian produced CPC product for re-sale in India and the Middle East markets. This distribution plan has been in the planning for two years, and has been aided by our ability to scrub Sulfur from our waste gases, allowing for high Sulphur, lower cost raw material inputs. We commissioned a CPC blending facility of 250K MT late last year, and it will be ramped up during the year to 500K MT. Once produced, CPC from several U.S. gulf plants is combined onto one ship allowing us to capture freight synergies utilizing large vessels. As Aluminum smelting is shifting from countries with high operating costs such as the US and South America, to countries with lower costs of operation, such as India and the Middle East, this blending plan allows us to maintain our production volumes in the U.S. and meet the growing demand of emerging Aluminum markets cost effectively.

On our GPC raw material costs, prices remain at relatively stable levels across all product qualities due to an oversupply situation which emerged due to reduced demand. In fact, we have been able to settle most Q3 prices at similar levels. Additionally, we are maintaining relatively low inventories of both GPC and CPC intentionally to manage our working capital effectively.

For coal tar related products we continue to pressure the prices on our purchases to source as competitively as possible. This, together with the economies of scale of our distillation facilities and waterborne locations, allowed us to enhance our margin during the quarter.

From a volume perspective, our pitch sales volumes for the year will remain strong despite continued struggling demand from the aluminum sector. We expect to have increased sales volume levels in CY2016, with the addition of our Severtar production which began earlier this year.

We saw stable volumes during the quarter on coal tar oils, and a rising oil price which aided our indexed products. The Fuel Oil price increased from an average of US$ 138 per Ton in Q1 of 2016 to an average of US$ 205 per Ton in Q2 of 2016. Benzene notations increased from an average of US$ 622 per Ton in Q1 of 2016 to an average of US$ 662 per Ton in Q2 of 2016, positively impacting BTX, Naphthalene, Ortho-xylene and PA pricing. Although the oil product prices have shown strong growth, we are seeing softening as the summer driving season ends. Stability in the crude oil price around $45 per barrel to anything upward in prices should allow us to show better realizations from these products going forward. Market expectations appear to indicate the crude market will stabilize between $40 to $50 per barrel for the remainder of the year.

Although, the chemicals business revenues were low related to lower volumes and exchange fluctuation between Euro and Indian Rupees, this business generated better realizations due to the change of notations, and improved its profitability in Q2 of 2016 compared to Q1 of 2016 due to a strong demand for specialty products and reduced trading sales.

We are focusing heavily on areas of cost to maintain our competitiveness on a global basis. The management team is facilitating the sharing of best practices globally across the Company and capitalizing on the extensive experience at our 15 production sites and 2 technology centers. We are making strong gains in productivity and driving down our production costs across the Company. While much still needs to be done, the initial results seen this year are promising.

We continue to watch developments on the global front, especially those in China. The aluminum price has stabilized around $1,600, which is encouraging given the last several years. Global steel news is also positive with volumes and prices on the uptick. This, if sustained, helps us to improve raw material availability and keep prices low. Given our run rates in both global businesses, and our ability to source lower cost inputs, we are confident in our ability to compete effectively moving forward. While we hope for continued positive movement in our markets, we are focused on driving productivity, controlling our costs, and managing our balance sheet effectively.

Now I would like to open the meeting up for the Question and Answer session ……. Over to you Operator ………

Moderator:

Thank you very much sir. Ladies and Gentlemen we will now begin with the Question-and-Answer Session. The first question is from the line of Vinod Malviya from Florine Tree Advisors. Please proceed.

Vinod Malviya:

Can you share the utilization level for CPC business in India and in US separately, and for the CTP business in Europe and Russia separately?

T. Srinivasa Rao:

The Indian CPC plant is operating about 100% as the demand is high and we get the incremental revenue from sale of electricity. Historically, for the last several years the Indian plant is operating at 100% capacity utilization.

Vinod Malviya:

3,25,000 tonnes which you are talking about?

T. Srinivasa Rao:

No, it is 4,95,000 to 5,00,000 tonnes depending on the number of working days in a year. Actually, we need to shut down the plant either for planned maintenance or unplanned maintenance which could vary between 15-days to 20-days. So it is operating at full capacity whereas the US plants on overall they contribute around 80% and certain plants are operated at full capacity and one plant is operated on need basis, out of two kiln one kiln is done continuously, one kiln is not run in one of the facilities called Robinson. CTP, our European plants are operating around close to 80-85% and the Russian plant is operating around 60%.

Vinod Malviya:

The margin expansion which we have seen in this quarter from Q1 to Q2, how sustainable this would be and going forward whatever steps you all are taking to improve your margin profile, will you go back to that 20+ margin what you were clocking 3-years back?

Gerard Sweeney:

The margin that we are seeing in the second quarter we believe is now sustainable. I am sure your question why, in the first quarter we got squeezed on our margins, we had higher inventories and higher cost inventories in an essentially dropping raw material price environment. So overall what we are seeing now is we are seeing good availability of our raw materials, we are able to drive price on that and some of the step change that we have seen in the industry in both businesses are leading us confident of our ability to maintain them. In the Distillation business, our main competitor essentially has closed some plants, we have been ramping up during that, we have been able to pick up essentially cheaper inputs into our Distillation which is helping to drive that improved margin. Similarly, on the CPC business, our ability now with the SO2 Scrubbing that we have put in allows us to buy cheaper raw material inputs and so we believe that with the margin that we are seeing now in the second quarter is indicative of our normal run rate going forward given the step changes we have seen in both of the businesses.

Moderator:

Thank you very much. The next question is from the line of Suri Reddy from Mergers India Info. Please proceed.

Suri Reddy:

This question is to Mr. Reddy. My concern is there is no reset in company valuation during the last 5-years, in fact, the market capitalization of the company has come down, may be the debt overhang is one of the key concerns of the investors. My question is are there any non-core assets which the company can dispose off to reduce debt? The second are there any plants generating returns below weighted average cost of capital of the company say if you are in a 3-year or a 5-year basis? My last query on that is, is the leadership incentive system aligned with the shareholder interest?

T. Srinivasa Rao:

Regarding your first question with regard to non-core assets, we are not seeing any non-core assets within our business, as you know we are engaged only in Carbon and Chemical and the business that was originally started by RAIN Group, the Cement business. All these three businesses are equally important for us and with different objectives like Carbon and Chemical businesses are used only to service the debt and look for expansion and growth whereas the returns in the Cement business are used for rewarding to the shareholders. So from that point of view none of these three businesses are non-core, all are very important or core businesses to the group. Your second question “With regard to whether we are generating adequate return on our investment or not?” Our cost of borrowing like you rightly pointed out there is an issue with regard to high debt in the company and there are certain like investors are concerned about the debt level, but if you see in the last 2 or 3-years we have few expansion projects that are under execution, which are strategic investments for us to strengthen our position within the business. The Chalmette FGD facility or the Russian CTP plant, these are all strategic investments which will create value for coming years. So while those investments are done without adding anything to the business, the overall returns on those investments have started coming only from this quarter onwards. So, we strongly believe that we are generating better returns on the investments whatever we have made either in the past or currently and it is certainly at least 5% to 6% higher than the cost of borrowing whatever we have in the business. We are planning to refinance the debt. May be the current cost of borrowing is around 7.5% to 8%. Because we are a high tax paying company at 30-35% tax rate, this post-tax cost of borrowing is between 5% and 6% and we are planning to reduce this at least by 1% to 2% in the coming year.

Suri Reddy:

By and large I have one supplementary in that I have asked is, do you have a plant wise weighted average cost of return or the capital because you have so many plants?

T. Srinivasa Rao:

Actually this is a global business, if you operate like each plant wise you may be drawing wrong conclusion like some of the plants in US like Robinson's facility we are operating only 1 kiln. If you want to maximize the return on the Robinson facility maybe we are pulling the overall revenues down, because we operate the plant only when we are adequately able to cater to the market demand. Today, the demand is running towards our side. So may be in the next quarter like Mr. Gerry just mentioned that Robinson facility will also operate the second kiln. So when you operate only one kiln, it may not give good returns. Same trend will be there in the Cement business. In our Kurnool facility we have two kilns -- one is a smaller kiln which will produce about 5 lakh tonnes, other kiln which will produce 1.5 lakh tonnes. So the 5 lakh tonnes kiln will not be operated. That does not mean it is a redundant asset for us or it is contributing zero returns to us. They are all strategically important when the market turns, they will all contribute good returns to us. Coming to your last question "Whether shareholder interest is inclined to the senior management or not?" Like you know that the promoters hold around 41% and this is the only business in which they are investing all their wealth. So certainly they want to protect their own investment in the company. So their interest is to protect the company as well as all the shareholders of the company.

Suri Reddy:

No, my last query is not with reference to the promoter. What I was asking is the leadership team incentive system is also aligned with the market cap. Is market cap is one of the parameters in evaluation of the senior leadership?

T. Srinivasa Rao:

No, actually speaking Mr. Suri Reddy, I know that for a company the market cap is important, but our incentive system is never linked to the market cap of the company, but it is certainly linked to performance what the leadership is responsible and the team in the Europe and US basically the Chief Commercial Officer, Chief Operating Officer, Chief Executive Officer, the entire CXO team in the RAIN Carbon Inc., which is contributing about 90% of the group revenues, their incentives is always linked to the performance of the group.

Moderator:

Thank you very much. The next question is from the line of Sandeep Baid from Quest Investments. Please proceed.

Sandeep Baid:

I have noticed over the last couple of years that the company's performance is good in the June quarter. Is there any seasonality that we have in the business or it is just a coincidence that for the last couple of years June quarter has been our best quarter?

Kris Vanherbergen:

When you get to seasonality, we do have some seasonality in our business, this is related to some of the higher margin products which we produce and which are typically used in the construction and the road building industry and those industry at least in the Northern Hemisphere is depending on summer and spring time. The second seasonality that we have seen in the past couple of years is that oil prices also have shown some seasonality whereby due to the driving season gasoline prices which are also indicative for some of the downstream petroleum prices that shape our results like Benzene, Phenols, etc., so those prices tend to be higher during the summer months because of the gasoline demand in the driving season. So this is shaping the seasonality in our business and which will also continue into the third quarter.

Sandeep Baid:

So are we saying that going forward the margins will be lower because of the seasonality or I heard you saying earlier that we should be able to maintain these margins?

Gerard Sweeney:

We have been looking at the seasonality in the best way for us to counter that movement. As Kris said, naturally the third quarter will still have the positive impact of the seasonality, but we also look at the business by keeping inventories low not having high inventories, turning our product over quicker, allow us to reset also when we exit that seasonality to reset our raw material prices. Now, we may have a little bit of volume impact, but also what we have seen is the dip I should say of those different product prices, that it hit us from a seasonal perspective before. So what the company has done is especially in those products, it sought to make sure that we do not get caught in any pinch with dropping product prices and therefore coming off the seasonality able to maintain our profitability fluid. Kris, you may want to add any more color, but we do not expect the impact that we have seen in prior years especially third to fourth quarter saying because of the counter measures that we take in Indian company and our ability to reset our raw material prices more fluidly.

Kris Vanherbergen:

Correct, Jerry. I think the only addition I would like to make is also the investment in Severstal is an investment which does not have the same seasonal signature at the other business, and as you say correctly, we have now taken active measures to avoid any surprise over the inventory realization in case that the prices for a crude oil will trend off during the fourth quarter.

Sandeep Baid:

My second question was on growth. Is it correct to assume that going forward for the next couple of years the growth will primarily come from the Indian blending unit and the Russian facility? Second question link to that was when do you expect the Russian facility to start clocking 80 to 90% capacity utilization? How will the capacity utilization improve for the CPC business in US?

Gerard Sweeney:

You have it right, in the two businesses growth will really come through more capacity utilization and we think we are very well placed for that. We also have the Severstal projects that Kris just mentioned which we have to essentially get up to 100% capacity utilization. That project itself by giving us access to very economically viable, certainly helps us overhaul from the performance in the Distillation business. From the CPC side, the high sulphur utilization keeps us with a lot of raw material availability for us where we ramp up during the second half of this year in the US. So we will be driving those volumes going forward which is really where the major growth is and then forward years we are going after begin to look at how we ultimately grow our volumes in the business as well, because we think the India blending strategy has us well placed and we will have the opportunity to continue to grow from a volume perspective.

Sandeep Baid:

So you mentioned about 100% capacity utilization for the Russian facility. When do you think you will be able to achieve that? How much throughput can we expect from the Indian blending unit over the next 12-months or so?

Gerard Sweeney:

I think from the Russian Severstal joint venture, we are targeting next year to get ourselves hopefully to 100% on that and I will say for 2017 we are targeting to be at 500,000 tonnes of blending. So that will be some products from the US, some products from the India as well as imported products from China.

Moderator:

Thank you. The next question is from the line of Akhilesh Kumar who is an individual investor. Please go ahead.

Akhilesh Kumar:

I heard in the beginning of the call that Competitor which is our nearest competitor in CTP and because they have closed many plants across the Europe and US and because of that we have got our Coal Tar prices reduced. Am I right? If it is that, then do we see any upward pressure on the prices in product as well on CTP?

Gerard Sweeney:

Certainly with Competitor closing some of their plants in particular some of the US plants over the last several years, it put power supply back in the market and allowed us to drive pricing on that Tar and some of that Tar is well placed for us. From the overall perspective, we are seeing better, essentially lower prices on raw material inputs in the Distillation business without a corresponding pressure on the Coal Tar Pitch price. So that help to improve our margins and we believe that is a sustainable piece related to.

Akhilesh Kumar:

Regarding Cement business, we have not mentioned anything regarding that Solar power plant we were having a JV with Rain Cements, any progress on that or we have dropped that?

Gerard Sweeney:

From the Solar plant, I think the development of that has stopped. SunEdison, our partner in that essentially has had financial problems and I believe we did not proceed with the investment in that Solar facility.

T Srinivasa Rao:

With regard to your question on the Solar power plant, we ask for an extension of time from Government of Andhra Pradesh and we are awaiting a response from that. Because the joint venture partner SunEdison is fully responsible for rising up the debt as well as the execution of the project, there are some delays are there from SunEdison maybe by next quarter we will be able to provide an update about the correct picture about SunEdison because there are a lot of management changes are there from SunEdison side.

Moderator:

Thank you. The next question is from the line of Dhruv Mucchal from Motilal Oswal Securities. Please go ahead.

Dhruv Mucchal:

Sir, just wanted some clarification on the scrubbing facility. Would it lead to an increase in our operating capacity of CPC or just it leads to improve the mix of raw material which we can use?

Guenther Weymans:

Very simple, the scrubbing facility allows us to basically keep all permits and permissions and at the same time allows us to take more sulphur into the heat stream. So lower cost GPC that we can turn into CPC which can be used in our scrubbing plant at our… So it's a tool to help to access low cost GPC into CPC.

Dhruv Mucchal:

So, basically improve the mix of our raw material. If you can give an approximately or general gap between GPC prices for high sulphur and low sulphur, what is the typical margin we are looking at, incremental margin through this facility?

Gerard Sweeney:

Price of GPC, let's say, the low sulphur and low metallic product is in the neighborhood of $80 to $90 and the price of high sulphur, higher metallic GPC is in the neighborhood of, let's say, calcinable product is in the neighborhood of $20 to $40.

Dhruv Mucchal:

$50 to $60 of difference?

Gerard Sweeney:

Yes, it fluctuates with time but at this point when prices are low it is probably in between $50 - $60 range differential.

Dhruv Mucchal:

And lastly, just wanted to understand, there are talks about pet coke being imposed to cess in India, I think Rs. 400 or Rs. 500, the number is still not sure, but will impact us for our Indian operations or not, or our product does not fall into that pet coke category?

N. Jagan Mohan Reddy:

No, that is mainly for the fuel purposes that we use in the cement and other industries because of the curb on the very high sulfur material. So that should not be applicable for anode application.

Dhruv Mucchal:

So, this does not impact us?

T Srinivasa Rao:

That is correct.

Moderator:

Thank you. Our next question is a follow-up question from the line of Sandeep Baid from Quest Investments. Please proceed.

Sandeep Baid:

This question is for Mr. Reddy, I just wanted to understand whether the refinancing of debt and US listing of carbon business, are these two independent events or they are linked?

N. Jagan Mohan Reddy:

They are independent events, because at this point we are actually concentrating on refinancing the debt, probably sometime in 2017. But while listing is on the plan but we do not have any concrete plans on that yet.

Sandeep Baid:

But do you think that listing will happen before the refinancing?

N. Jagan Mohan Reddy:

No, listing, we have no plans at this point of time on that, but on refinancing we are definitely planning to refinance in 2017.

T. Srinivasa Rao:

This does not mean that we will not list at all, we will list but maybe after 2017.

Sandeep Baid:

And Mr. Rao, what percentage of our cement do we sell in the AP and Telangana region?

T. Srinivasa Rao:

See, actually our core markets are all the southern states, Andhra Pradesh, Telangana, Karnataka and Tamil Nadu, these are the core states. I think, between all of them we will do something like about 70% - 75%. Our larger facility is in Karnool which is closer to Karnataka and Tamil Nadu markets.

Moderator:

Thank you. Our next question is from the line of Pawan Ahluwalia from Laburnum Capital. Please proceed.

Pawan Ahluwalia:

I had a question, basically saying if we are going to refinance in 2017, so I assume there is no plan to really bring the leverage down very much, it is in line with levels we have indicated in the Company earlier. So, I am assuming that there is not going to be any meaningful pay down of debt, but you will extend its maturity forward. Having said that, if you do especially refinance and build out the interest cost, the amount of the free cash we will be generating will be quite high this year, next year going forward. I just wanted to know what are the plans, where do you see that cash being utilized?

N. Jagan Mohan Reddy:

See, we want to actually do refinance sometime, as we said, in 2017. But, we want to try and keep the leverage ratio well below 4, we are now higher than 4, we want to reduce the leverage ratio to below 4. And as we get the cash we too can buy back the bonds in the market. As you may be aware, we almost purchased about $85 million of bonds in the last one year, so we will continue to do that even if we refinance. So, our thought process is, all that surplus cash we want to use is that can be set aside for the debt repayment will be used for that purchase back of the bond.

Pawan Ahluwalia:

But with your new facilities coming up and running, right, if I take your current run rate, EBITDA and whatever happens in Russia ramps up, then that's about almost $1 billion of debt or Rs. 6600 crores of debt. And then you have another Rs. 1,500 crores - Rs. 1,600 crores EBITDA run rate. So almost, I mean, if you knock the $100 million off debt, you will be in your 4X coverage. So you do not actually need to repay much or buyback much to be within where you want to be?

N. Jagan Mohan Reddy:

No, initially the plan is to be below 4 and once we do that that once we start accumulating cash we want to use that cash for repayment of debt or buyback of bonds. So we do have bonds buyback. If we do leverage financing, then actually we can repay the bank debt. So, we may do a combination, we are still working with the banks on how to do it. But since it is going to be in 2017, we will decide sometime towards the end of this year or early next year on exact mode of financing.

Pawan Ahluwalia:

Other than debt repayment, there is nothing else on your mind in terms of cash right now?

N. Jagan Mohan Reddy:

At this point of time, no.

Moderator:

Thank you. Our next question is from the line of Sudhir Mahajan from Spartan Investments. Please proceed.

Sudhir Mahajan:

What is the overall cement capacity utilization that you are having right now and what is the EBITDA you are going to be doing for the current year?

N. Jagan Mohan Reddy:

About 60% is the capacity utilization of the cement business and about Rs. 600 is what we are thinking will be the EBITDA per ton.

Sudhir Mahajan:

And do you think we would be able to improve the capacity utilization in 2017 - 2018?

N. Jagan Mohan Reddy:

Yes. As there is a new capital being built and there is lot of infrastructure that is going on, we hope that the capacity utilization should improve going forward each year.

Sudhir Mahajan:

And one last question, what do you think would be the EBITDA for the whole year for the whole company as it is?

N. Jagan Mohan Reddy:

That we do not know, we do not give our guidance for the company. So we actually only talk about past but we do not have any guidance for going forward.

Moderator:

Thank you. Our next question is from the line of Ashok Bansali who is an individual investor. Please proceed.

Ashok Bansali:

Sir, so we have seen an increase in the oil price from Q1 to Q2, but our average selling price has actually not gone up, except for the volume increase. So, what is the reason for that?

Kris Vanherbergen:

Well, on the selling price, it is of course one part of the equation. In fact, the way we tried to setup the business is that it has as much as possible relevance to a margin. So, when oil prices go up our revenue goes up, but at the same time there is some influence on the raw material side. That said, there is a beneficial situation if oil prices are higher, because most of the time the raw materials are moving on a percentage wise rather than on absolute basis. So, that is part of the explanation why you do not see a 100% recoup of what is happening on the oil price, also on the margin side.

Ashok Bansali:

But for the January to March quarter, if we had a one quarter hit, shouldn't April to June have been a one quarter gain for us?

Kris Vanherbergen:

I believe there is gain in the overall margin development as you see, that gain is because, as I said, you have on the one hand you have an improvement in the margin effect, although that is not a 100% movement of the oil price. And the other thing is that of course it will have a positive effect on the valuation of whatever inventories we carry at one point in time. But it is not 100% of the movement.

Ashok Bansali:

Because when I see the increase in sales, our volumes have gone up by 21% on a blended basis and our revenues have also gone up at the same level. So, I am actually not seeing any increase in the average realization in the CPC, CTP or the Carbon product segment.

Kris Vanherbergen:

Well, that is of course a segment where the oil price relevance is not there. So there is a different dynamic on both Coal Tar Pitch and on Calcined Petroleum Coke which has more to do with, for instance, coal pricing then it has with oil pricing. And also on the Coal Tar Pitch side it is more of an overall wholistic margin which is driven by coal tar distillers of which the Coal Tar Pitch is only one side. So on the carbon side, the relevance of oil pricing is much lower, it is much higher on the chemical side and there we do see an improvement on the overall margin.

Ashok Bansali:

I am sorry to just stretch this a bit, but in the other carbon segment where we have Naphthalene, Phthalic Anhydride, there is actually no change at all in the average realization. So, is the price yet to reset in that segment?

N. Jagan Mohan Reddy:

See, you have to just understand, we are more or less a converter, our business is based on conversion. So what happens is because of the oil prices or aluminum prices falling for various reasons, finished product prices are not rising, as a matter of fact, the finished part of pricing are coming down. But what is happening is, the raw material prices are also coming down along with that. So what we are doing is we are trying to improve our margin by trying to pressure the raw material prices. So the finished product price are indeed falling in the last two years, we see it almost every quarter-on-quarter there is a continuous fall of the finished product prices. So that is the reason why you are not seeing any increase in the prices, but instead you will see it in the raw material prices where we will actually try to maximize our margin by trying to reduce the raw material cost through various blending, optimization and other things.

Moderator:

Thank you. I now hand the conference over to Mr. Reddy for closing remarks. Over to you sir.

N. Jagan Mohan Reddy:

Thank you, everyone, for participating in the call. The successful implementation of our strategic plans and new business model, combined with improvements in future market conditions, the company is confident of improving its performance and thereby lowering its financial leverage ratio in forthcoming quarters. With the signs of improvement in market quotation and ramp up of the expansion projects, the company's performance is expected to improve from second half of 2016 onwards. Although, the majority of the company's debt is due in December 2018 and January 2021, the company is preparing to refinance our debt during calendar year 2017 with lower cost debt with variety of options available to it. Thank you once again.

Moderator:

Thank you. Ladies and Gentlemen, on behalf of RAIN Industries Limited, this concludes the conference. Please note that the transcripts will be available on the stock exchange and company website post the call. Also note that a playback of this call will be available until 22nd of August, 2016. Thank you all for joining us and you may now disconnect your lines.