RAIN INDUSTRIES LIMITED

RIL/SEs/2023 August 05, 2023

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

With reference to the above stated subject, please find enclosed herewith the Transcript of Management Presentation on Un-Audited Financial Results of the Company (Standalone, Consolidated and Segment) for the second quarter and half year ended June 30, 2023.

This is for your information and records.

Thanking you,

Yours faithfully,
for Rain Industries Limited

Singidi Venkat Ramana Reddy

Digitally signed by Singidi Venkat Ramana Reddy
Date: 2023.08.05 11:06:45 +05'30'

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Introduction by Alan Chapple

Hello, ladies and gentlemen. This is Alan Chapple, director of corporate communications and public relations for Rain Carbon Inc.

In just a moment, we will take you through the performance of RAIN Industries Limited during the Second Quarter of 2023.

Presenters are Mr. Jagan Reddy Nellore – Vice Chairman of RAIN Industries Limited; Mr. Gerard Sweeney – President of RAIN Carbon Inc.; and Mr. T. Srinivasa Rao – Chief Financial Officer of RAIN Industries Limited.

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

Now, if you could turn to Slide 3, Mr. Jagan Reddy will provide an update on key developments in RAIN Group during the Second Quarter of 2023. Thank you, and over to Jagan.

Slide 3 – Jagan Reddy Nellore:

Thank you, Alan.

Good evening, everyone.

As you may be seen from Slide 3 of the presentation, we finished the second quarter with an EBITDA of Rupees 6.75 billion. As expected, this was our third consecutive quarter with normalized performance.

As you may recollect, we cautioned on the last several calls that the high earnings we enjoyed throughout 2021 and into first half 2022 were the result of opportunistic margins that were fueled by a surge in post-COVID demand and the resulting commodity super cycle. We fully expected that this was an anomaly, and it was – albeit one that we were happy to benefit from.

While things clearly have cooled off, we are very pleased with our Q2 performance given the market correction we saw in March, and the resulting 30-40% drop in product prices led by events in China. We entered the quarter focused on resetting our raw material prices to align with this sales side drop in prices. Needless to say, we have been successful, and are comfortable with our costs entering the second half of 2023.

We also experienced headwinds from abnormally wet weather in North America during the past few months, limiting the seasonal benefit we usually capture during Q2 & Q3 from our seasonal creosote and sealer base products.

Also encouraging is the fact that one of our Advanced Materials plants in Europe has returned to service after being idled last September due to high energy costs, allowing us to address some technical and mechanical issues with the unit.

Slide 4:

Moving on to slide 4, aluminum prices spent most of the second quarter under the $2,300 level generally considered a healthy price for continued production and possible expansion. While the price has fluctuated from $2,200 to $2,300 since April, it has rallied back toward $2,300 of late.

Despite the softer LME prices, we have not seen any effects on producers during the quarter – presumably because smelters have been able to offset lower LME prices with declining costs for anodes and the calcined petroleum coke and coal tar pitch required to make them.

In China, the expected rally of the economy post-Covid, appears to have fallen flat. Any near-term rebound might require government action to stimulate the economy. If that happens – and if it is successful – we would expect domestic consumption of manufactured goods to improve. That, in turn, would result in increased demand for carbon products to feed the aluminum industry.

Despite the Chinese economy, demand for aluminum remains relatively strong globally, and we remain focused on “managing our margins.” Even with the steep fall in finished product prices during late Q1, we have been able to avoid follow-on write downs and prolonged margin compression during Q2.

Regarding the Cement business, demand continues to be reasonably strong in South India. Although the second quarter performance has been negatively impacted due to the inflated cost of fuel, the good news is that the fuel prices are coming down precipitously, which should positively impact the cement operations in the coming quarters.

With this business update, I will now turn over the presentation to Gerry to take you through industry and other business updates on Slide 5 …

Gerry …

Slide 5 – Gerry:

Thank you, Jagan,

Hello, everyone. It is a pleasure to discuss the Industry Trends during the Second Quarter of 2023.

Turning to slide 5, in our Carbon segment during the second quarter, we experienced a decline in EBITDA primarily due to lower pricing for both calcined petroleum coke and coal tar pitch. On the calcination side of our Carbon business, CPC volumes for the quarter were down approximately 16% compared to the previous quarter, mainly due to shipment timing. During the quarter, we worked off most of our existing high-priced inventories, and began resetting raw materials with the purchase of raw materials more in line with market.

Looking ahead, we expect CPC and CTP demand will remain relatively flat for the remainder of the year. Our order books are relatively set, and barring any unexpected downward movement in the market, we remain confident of a normalized performance during the second half of 2023.

Elsewhere in carbon calcination, we are continuing to refine and optimize the production process for our proprietary anhydrous carbon pellets, or ACP. We are also conducting a more detailed product test with one of our customers. Based on our own internal testing, we continue to believe that ACP will be a favorable product for us. Keeping in mind that energy is the largest cost for a smelter, the fact that ACP potentially offers a higher energy efficiency than traditional CPC should enable producers to reduce their energy consumption per ton of aluminum. In doing so, smelters will be able to produce more tons of aluminum with the same level of energy-related emissions.

In India, the Environmental Ministry issued the government's long-awaited National Standards for Emissions in June that apply to the country's calciners and will take effect in mid-2025. With flue-gas desulfurization systems that remove at least 98% of sulfur dioxide emissions at our Vizag and SEZ plants, the pollution-control systems on our calcination facilities exceed the pending environmental requirements.

As we have said on previous calls, we believe the shaft calciner should not be subject to the import restriction since it is located in a Special

Economic Zone, and it was developed to cater to export markets. We are seeking clarification from the Honourable Court in this regard.

Moving on to the distillation side of our Carbon segment, coal tar pitch volumes were flat in the second quarter. At the same time, the drop in prices lead by China have forced down pitch prices, pressuring margins while we reset inventories.

In our other carbon products category, volumes decreased 5%. This was driven by a 17% reduction in sales of carbon black oil due to weak demand as the CBO deficit caused by Russian sanctions has now been filled by other producers around the world. On a positive note, this was somewhat offset by the seasonal increase in sales of creosote. Finally, while sales of crude naphthalene were up slightly, prices declined due to continued softness in the construction industry.

Turning to our Advanced Materials segment, EBITDA increased quarter over quarter despite volumes remain flat. This was largely driven by increase in realisations coupled with a decline in energy and operating costs during the quarter.

In the sub-segment of engineered products, demand for CARBORES®, which is used as a binding product in refractory materials by steel plants, saw a slight decline, largely due to continued weakness in the Asian manufacturing sector. Elsewhere, sales of our PETRORES® specialty coatings were flat and will likely remain so until sales of electric vehicles pick up globally. Finally, while sales of our seasonal asphalt sealer products increased significantly compared to the first quarter, they were not as robust as expected, due to unusually wet weather in North America during the period.

Looking at our chemical intermediates sub-segment, our BTX and phthalic anhydride volumes were lower compared with the previous quarter due to a planned turnaround and plant-inspection activities that reduced throughput. Sales of our modifiers rebounded somewhat during the quarter, but the volumes are still roughly half of what they were a year ago – again, largely resulting from weak demand by Asian customers. Finally, volumes of refined naphthalene were down nearly 30% due to a slowdown in construction activity and slack demand for naphthalene-containing building materials.

Moving on to resins and downstream materials, demand for hydrocarbon resins declined due to economic weakness, which is impacting discretionary purchases of resin-containing products. During the quarter, we also sold the remaining tons of aromatic chemicals that were still at our Castrop-Rauxel facility after we closed the unit late last year.

Finally, we began ramping up production of our hydrogenated hydrocarbon resins after completing some equipment changes. We believe our German-based facility is well positioned to compete in the European market for several reasons. First, two of the four HHCR producers in Europe have closed their facilities, significantly reducing the volume of these ultra-pure resins on the market. Second, our location in Europe means that we have a logistical advantage compared to Asian producers when selling to customers on the continent and in North America, as we can supply them with molten product. In addition to reducing the cost of transportation, the shorter supply chain translates to a smaller shipment size, a smaller carbon footprint, and just=in=time deliveries from within Europe.

Looking ahead at our Advanced Materials segment, we are watching the market carefully, as the European market has been challenging with the impact of war.

In terms of our business as a whole, despite the recent market correction we saw on prices, we believe we can continue to perform within our normalized EBITDA range in the near-term. We also expect that increased sales of our advanced resins will be a boost to our earnings and we expect strong third-quarter sales of our seasonal creosote and sealer base products.

Above all, we are focused on protecting our margins, supporting our EBITDA performance. To accomplish that, we know that we must operate our plants as efficiently and cost-effectively as possible and continue to pressure down raw materials as quickly as possible to take advantage of the declining prices for green petroleum coke and coal tar.

With that, I will now turn the presentation to Srinivas, who will take you through the consolidated financial performance of RAIN on Slide 6.

Srinivas, over to you.

Slide 6 – Srinivasa Rao:

Thank you, Gerry.

Hello, everyone. It is a pleasure to present our financial performance during the June 2023 Quarter.

In the Second quarter of 2023, RAIN achieved consolidated net revenue of Rupees 46.21 billion compared to Rupees 55.27 billion in the second quarter of 2022, a decrease of Rupees 9.06 billion. This resulted from a decrease in revenue of Rupees 6.18 billion from our Carbon segment, a decrease of Rupees 2.87 billion from our Advanced Materials segment and Rupees 0.01 billion from our Cement segment.

RAIN's consolidated adjusted EBITDA decreased by Rupees 5,770 million compared to the prior year. This resulted from a decrease in the Carbon segment by Rupees 4,861 million, a decrease in the Advanced Materials segment by Rupees 722 million and a decrease in the Cement segment by Rupees 187 million.

Now turning to the next slide on Carbon segment performance …

Slide 7 – Srinivasa Rao:

Revenue from our Carbon segment was Rupees 33.54 billion for the quarter ended June 30, 2023, as compared to Rupees 39.72 billion for the same period last year.

During the quarter, sales volumes decreased by 8% compared to Q2 2022, primarily driven by delays in shipments. During Q2 CY23, the average blended realisation decreased by ~8.0% on account of lower demand and lower market quotations across all regions. There was an appreciation of EURO against Indian Rupee by ~8.8% and an appreciation of USD against Indian Rupee by ~6.5%.

Overall, due to the aforesaid reasons, revenue from the Carbon segment decreased by ~15.6% in Q2 CY23, as compared to Q2 CY22.

Adjusted EBITDA of the Carbon segment decreased by Rupees 4,861 million as compared to Q2 CY22. EBITDA for current period is normalized compared to prior year, which included opportunistic margins from higher realisations. The reduction in EBITDA is due to lower realisations and decreased volumes, which were partially offset by appreciation of USD and EURO against Indian Rupee.

Turning to the next slide on the performance of Advanced Materials …

Slide 8 – Srinivasa Rao:

Revenue from our Advanced Materials segment was Rupees 8.93 billion for the quarter ended June 30, 2023, as compared to Rupees 11.80 billion for the same quarter in 2022. During the quarter, there was a decrease in volumes of ~30.8%, primarily driven by lower production on account of closure of aromatic chemicals business and changes in product mix based on raw material availability partly offset by an increase in realisations by 9.3% and an appreciation of EURO against Indian Rupee by ~8.8%.

Due to the aforesaid reasons, revenue from the Advanced Materials segment decreased by ~24.3% during Q2 CY23, as compared to Q2 CY22.

Adjusted EBITDA for the Advanced Materials segment decreased by Rupees 722 million due to a decrease in volumes on account of the temporary shutdown of facilities partly offset by an increase in realisations, reduction in energy prices and appreciation of EURO against Indian Rupee.

Moving on the next slide on our Cement business …

Slide 9 – Srinivasa Rao:

During the Second Quarter of CY23, Cement revenue was almost flat compared to Q2 of Calendar Year 2022. However, there was a decrease in realisations by 5.0% offset by an increase in volumes by 5.1%.

Cement EBITDA decreased by Rupees 187 million due to higher operating costs and decreased realisations offset by an increase in volumes.

Moving on the next slide on debt …

Slide 10 – Srinivasa Rao

We ended the quarter with total debt of US$ 1,146 million, including working capital debt of US$ 109 million. Net debt was US$ 852 million and, based on LTM EBITDA of US$ 372 million, we ended the quarter with a net debt to EBITDA ratio of 2.3x.

We incurred US $41 million towards capital expenditures during the first half of the year. We initiated the refinancing of our debt maturing during early 2025 and are expected to complete the same in next couple of weeks.

With that, I will now turn the Presentation to Mr. Jagan for closing remarks.

Closing Remarks – Jagan Reddy Nellore:

Thank you, Srinivas.

While challenges around the world and in our business remain, our overall business is performing as anticipated. While we enjoyed the opportunity margins of the last few years, we are back to normal in earnings going forward.

Looking ahead, in our Advanced Materials segment, we are benefiting from more stabilized energy prices in Europe, enabling us to restart some idled production and returning the business to profitability. In addition, improved weather in North America should enable us to capitalize on sales of our seasonal products such as our sealer base through Q3.

On the cautious side, we are entering hurricane season along the Gulf Coast of the United States, which could affect us and our employees. The good news is that we have learned a great deal from recent hurricanes, hardening our plants and improving our storm-related processes, so we are cautiously optimistic that we can weather the 2023 hurricane season without any extraordinary impact.

Finally, China remains a wildcard. As long as its economy continues to struggle, demand for some of our finished products such as PETRORES® and CARBORES® could remain soft. Similarly, a lack of domestic consumption will likely result in additional exports of low-cost CPC, coal tar pitch and advanced resins.

But we recognize this, and in response, we are doing all we can – as always -- to carefully manage our costs and work down our higher-cost raw material inventories so we can take advantage of cost resets. Please rest assured that we are committed to protecting our margins and preserving our profitability.

Thank you for your continued interest in RAIN Industries Limited, and we look forward to next quarter’s presentation.