



RAIN INDUSTRIES LIMITED

RIL/SEs/2021

March 4, 2021

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 Audited Financial Results for the Financial Year ended December 31, 2020.

This is for your information and records.

Thanking you,

Yours faithfully,
for Rain Industries Limited


S. Venkat Ramana Reddy
Company Secretary



Q4 2020 Earnings Conference Call

February 25, 2021
5:30 PM IST

Management:

Mr. Jagan Reddy Nellore – Vice Chairman, Rain Industries Limited

Mr. Gerard Sweeney – President, Rain Carbon Inc.

Mr. T. Srinivasa Rao – Chief Financial Officer, Rain Industries Limited



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

Moderator:

Good evening, ladies and gentlemen. On behalf of RAIN, we welcome all the participants to the Fourth Quarter 2020 Earnings Conference Call of RAIN Industries Limited. Speakers on today's call 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.

As a reminder, all participant lines will be in 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.

During the conference call, management will be referencing and discussing a slide show presentation which is available for viewing on our website at www.rain-industries.com in the Investor Relations section. It is recommended viewing this presentation while listening to the management's discussion.

Before we begin, management 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.

Now if you could turn to Slide 3, I would request Mr. Jagan Reddy to provide an update on key developments within the RAIN Group. Thank you, and over to you, sir.



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

Jagan Reddy Nellore: Thank you, operator. Good evening to everyone.

I would imagine that, like me, many of you are relieved that 2020 is over and looking forward to getting back to life as it was prior to the coronavirus pandemic.

Despite 2020 being a year we all want to forget, it was the safest in Company's history, with 13 of our sites completing the year without a recordable incident. In fact, across our organization, we have operated 252 days without a recordable incident. Other than a few weeks nationwide lockdown in India, no other production facilities globally were shutdown due to COVID. We overcame significant damage from the strongest hurricane to hit the Louisiana area in the last 150 years and continue to operate our plants safely with only essential operators on site.

We also fully executed our plan to cease operations at our Uithoorn facility and optimize production at our Duisburg site, essentially producing the majority of the same products at one site instead of two. This improved efficiency is one of the reasons we were able to maintain EBITDA in a year that had reduced sales volumes and many headwinds.

Turning to Slide 4 of the presentation, EBITDA of INR 4.80 billion in the fourth quarter was down 7% from INR 5.17 billion during the previous quarter. This decrease reflects the seasonality of some of our products sold in Europe and North America from our Carbon and Advanced Materials segments, which are not in high demand in cold weather. Revenues for the quarter was INR 26.40 billion compared with INR 25.66 billion in Q3. The sequential improvement in light of



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

reduced earnings occurred primarily due to improved volumes and pricing and appreciation of Euro against INR. This was the second consecutive quarter that we have seen an increase in revenues, giving us hope the global economy is returning to normalcy – albeit slowly.

On the Carbon side of our business, volumes were up about 4% and revenues increased about 7% from the third quarter. This was despite the lingering impact of damage caused by Hurricane Laura on our Lake Charles facility. Although we were able to restart both calcination kilns and electric-generation plant, we lost about one month of energy income during the current quarter and were not able to produce CPC to capacity due to bottlenecks and other constraints caused by the widespread damage to the plant, resulting in under-absorption of costs.

Our calcination business was also challenged by a continued worsening of global Green Petroleum Coke (GPC) supply. As we have seen throughout the pandemic, GPC prices continued to rise due to reduced refining of transportation fuels, which has negatively impacted refinery run rates and GPC production. On a positive note, bullish demand for aluminum and the anodes required for smelting has resulted in higher CPC prices helping to offset the GPC cost increases, providing an optimistic view for the coming quarters.

During the fourth quarter, we began to prepare to suspend calcination activities at our Robinson, Illinois facility. A range of issues have impacted demand traditionally served from the facility, led by access to cost effective raw materials. During the current year budgeting



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

process amid raw material shortages, it became clear that it would be more economical to suspend operations temporarily until the supply / demand situation improves, especially from a GPC perspective. We will service the Robinson plant's sales volumes from our Gulf Coast calciners and in the coming months will continue to evaluate the market for signs of improvement so we can resume calcination at Robinson.

On the distillation side of our Carbon segment, pitch volumes were lower, largely due the closure of an aluminum smelter and curtailments at an anode producer. On the margin side, we saw price pressure on traditional coal tar supplies as industries look for alternatives for raw materials typically sourced from oil refineries and add demand pressure. In terms of other carbon products, creosote volumes were down slightly due to seasonality, while volumes of carbon black oil were up about 9% as we sold inventory that had built up from Q2. Finally, crude naphthalene volumes grew by about 11% thanks to increased demand by the construction industry.

Turning to Advanced Materials, fourth quarter saw lower volumes, which resulted an 8% decrease in revenue compared with the third quarter. This was primarily due to a seasonal reduction in engineered product sales -- in particular, our sealer-base products, which falls off in the winter months. Our PETRORES sales volumes remained strong, which reflects the transition to electric vehicles in many parts of the world, and sales of our CARBORES specialty binder increased by more than 9% during the quarter as demand from Asian customers rebounded as the impact of COVID began to subside.

Elsewhere, carbon resins sales were flat with Q3, and sales of our petro resins increased during Q4. Petrochemical intermediates volumes were



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

up substantially but pricing changed in line with benzene quotations. Finally, sales of naphthalene derivatives during the fourth quarter were stronger due to increased demand for phthalic anhydride, PNS products and refined naphthalene by the construction industry.

Regarding naphthalene derivatives, we closed the fourth quarter with the sale of our polymers business, which primarily consisted of our production facility in Candiac, Canada. This downstream business fell outside of our core businesses and had always been run as a standalone enterprise with few synergies other than utilizing naphthalene oil produced at our distillation facilities.

In our Cement business, there was an increase in volumes and revenue by approximately 11% and 2% respectively compared with third quarter. The sales volumes have improved across all regions where we operate. Segment EBITDA decreased by INR 252 million compared to third quarter mainly due to lower realisations. With good monsoons in South India, the rural economy should provide strong impetus to increased construction activity and thereby cement demand over the next several quarters.

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

Gerard Sweeney:

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

Turning to slide #5, aluminum demand is now higher than pre-pandemic levels and with the LME prices more than \$2,100 a ton are the highest since late 2018. Also, increased demand is driving pricing as there appears to be a global shortage of scrap and primary aluminum.



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

Amid growing demand and rising prices, an additional 4.7 million tons of smelting capacity - 3 million of it in China - is expected to come online during 2021 in the form of new plants and restarts of previously idled facilities. At the same time, the decision by the new U.S. administration to continue aluminum tariffs instituted by the outgoing administration and potentially reinstate others that had been lifted should help to protect U.S. smelters from Chinese imports.

These developments bode well for our Carbon segment. Increased Chinese aluminum production should result in a decrease of CPC exports out of that country, creating more opportunity for us to serve the rest of the global market. Similarly, there should be less Chinese coal tar pitch exported to places like the Middle East and South Africa which should be beneficial to us as well.

In terms of aluminum pricing, we are now seeing deals in the market for low-carbon aluminum. However, in Q4 of 2020 we began seeing companies pay a slight premium for low carbon aluminum. As smelters and anode producers look to capitalize on this emerging sustainability trend, we believe that our engineered Anhydrous Carbon Pellets (ACP) could be a differentiator in helping aluminum producers reduce their emissions and energy consumption contributing to the marketability of their low carbon aluminum.

Continuing on ACP, let us turn to slide #6, our major projects.

Construction has resumed at our ACP production facility in the United States and will commence in Q2 2021 in India after being halted due to the risk of COVID exposure amongst employees and contractors.

Beyond its lower emissions and energy advantages, ACP will give us the unique ability to maximize our GPC feedstock as the rapid global



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

transition to electric vehicles reduces demand for transportation fuels and resulting availability of feedstock for our calciners. In a world where pet coke supplies are becoming increasingly tight, the ability to achieve enhanced green petroleum coke utilization rates when we calcine ACP by reducing the consumption loss during calcination could be a differentiator when it comes to production economics, raw material availability and sustainability.

Construction on our new vertical shaft calciner in India is largely completed and we could begin production within weeks of receiving a satisfactory ruling on the importation of raw material feedstock for the facility. The ability to import the needed raw materials for the shaft calciner is critical because of the shortage of available domestic GPC. Across India, supplies have become even tighter as cokers are producing less pet coke during the pandemic and competition for domestic GPC versus higher cost imports has intensified.

Once commissioned, each of these projects and their carbon-extending and emissions-reducing technologies will strengthen our position as a leading sustainable global producer of essential carbon-based materials.

Finally, an update on our new hydrogenated hydrocarbon resins plant in Germany. After spending much of the second half of the year working with customers on product testing and validation we reached our first sales milestone for our advanced water-white resins in the fourth quarter. The qualification process was understandably impacted by COVID since the pandemic has reduced customers willingness to conduct testing and introduce new products while working with skeleton crews. Additionally, we continue to work to optimize operations of this plant. It is a highly sophisticated unit, introducing new technology and capabilities to the industry. Looking forward, we will continue to ramp



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

up production and anticipate continually increasing sales volumes in 2021.

Before I turn the call over to Srinivas, I would like to congratulate our employees for completing 2020 with a total recordable injury rate of less than 0.14, making it the third year in a row that we have established a new company best for annual safety performance.

In any year that would be a remarkable achievement but the fact that we finished 2020 with so few reportable injuries is beyond remarkable when you consider that we achieve this while implementing radically new health and safety practices due to COVID as well as starting up our new advanced resins facility, dealing with the significant damage from hurricane and completing one of the most complex maintenance turnarounds that we have ever attempted.

With that, I will now turn the call over to Srinivas who will take you through the Consolidated Financial Performance of Rain.

Srinivas, over to you.

T. Srinivasa Rao:

Thank you, Gerry, and good evening everyone. It is a pleasure to speak with you today.

In the fourth quarter of 2020, RAIN achieved consolidated net revenue of INR 26.40 billion compared to INR 28.30 billion in the previous year corresponding quarter of 2019, a decrease of INR 1.90 billion or 6.7%. This resulted from a decrease in revenue of INR 2.34 billion, or 12.3%, from our Carbon segment, INR 0.25 billion, or 3.7%, from our Advanced Materials segment offset by an increase of INR 0.70 billion, or 31.9%, from our Cement segment.



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

RAIN's consolidated adjusted EBITDA increased by INR 269 million compared to the prior year. This resulted from an increase in the Advanced Materials segment by INR 367 million and an increase in the Cement segment by INR 389 million, offset by a decrease in the Carbon segment by INR 487 million.

Now turning to the next slide on Carbon segment performance ...

Revenue from our Carbon segment was INR 16.71 billion for the quarter ended December 31, 2020, compared to INR 19.06 billion for the same period last year.

During the quarter, the sales volumes decreased by 4.2%, primarily driven by lost CPC sales due to Hurricane Laura and reduced demand due to smelter closures. The average blended realisation decreased by ~8.5%, which was offset to some extent by the appreciation of USD and EURO against Indian Rupee by ~3.6% and ~11.5% respectively.

Overall, due to the aforesaid reasons, revenue from the Carbon segment decreased by ~12.3% in Q4 CY20 as compared to Q4 CY19.

Adjusted EBITDA of the Carbon segment decreased by INR 487 million due to a decline in volumes, majorly on account of Hurricane Laura.

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

Revenue from our Advanced Materials segment was INR 6.57 billion for the quarter ended December 31, 2020, as compared to INR 6.82 billion for the same quarter in 2019. During the quarter, there was a 7.6% increase in volumes driven by improved demand from Asian markets after recovery from COVID-19, improved demand from construction industries coupled with higher throughput based on improved raw material availability. During Q4 CY20, the average blended realisation



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

decreased by ~10.5% driven by changes in customer mix and a decline in oil related prices, which was offset to some extent by the appreciation of the EURO against Indian Rupee by ~11.5%.

Due to the aforesaid reasons, revenue from the Advanced Materials segment decreased by ~3.7% during Q4 CY20 as compared to Q4 CY19.

Adjusted EBITDA for the Advanced Materials segment increased by INR 367 million due to higher realisations in engineered products and increase in volumes in naphthalene derivatives compared to Q4 CY19, coupled with the appreciation of the EURO against Indian Rupee.

Moving on the next slide on Cement business ...

During the Fourth Quarter of CY20, Cement revenue increased by ~31.9% compared to Q4 CY19 due to an increase in realisations by 21.2% along with an increase in volumes by 8.8% as compared to Q4 CY19.

Cement EBITDA increased by INR 389 million due to an increase in realisations, coupled with lower costs.

Moving on the next slide on debt ...

We ended the quarter with approximately \$1,212 million of total debt, including approximately \$77 million of working capital loans. Net debt was \$932 million and, based on LTM EBITDA of \$269 million, we ended the quarter with a net debt to EBITDA ratio of 3.5x. We are comfortable at this level, as our average borrowing cost stood at ~5%, and we expect it to remain stable since the floating-rate portion of our long-term debt is tied to the Euribor, which is still negative.



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

Referring to our previous discussions, cash outflow on capital expenditures and plant turnaround costs for the year ended 2020 totaled \$146 million, which was more than expected because we resumed construction activity during the quarter on our ACP project and incurred expenditures related to Hurricane Laura.

Regarding liquidity, we ended the quarter with \$280 million of cash on hand and \$130 million of undrawn revolving credit facilities. The cash balance increased significantly due to proceeds from the sale of our Polymers business. While this positions us very comfortably, we do not intend to maintain this position. Given that the transaction closed on the December 31, we are still in the process of evaluating all options available to us to deploy the proceeds efficiently. The primary goal is to reduce debt and interest expense for the group.

With that, I will now turn the call over to the operator for Q&A session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Viraj Mehta from Equirus Securities. Please go ahead.

Viraj Mehta: If we were to normalize for the Hurricane Laura, what kind of volume, growth we would have seen in the Carbon segment?

T. Srinivasa Rao: On account of Hurricane Laura, we lost about 34,000 tons of CPC volumes.

Gerard Sweeney: Yes, that was the impact.

Viraj Mehta: Ok. So, the existing run rate that you mentioned about the CPC business, is it showing traction back to or higher than pre-COVID level than September quarter as well?



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

- Jagan Reddy Nellore:** Yes.
- Viraj Mehta:** Second thing, we essentially sold the business to repay debt is what we mentioned in our press release as well. But as we can see in the presentation today, our net debt has also gone up and our cash has also gone up. I mean on net debt level, it looks okay, but we are still not repaying debt. When does that start happening?
- T. Srinivasa Rao:** The sale happened on December 31st. So, any reduction of the debt will not appear as of December 31st. Second point to be noted is, increase in the debt is because of the exchange rate, we have about Euro 390 million of debt in and we are presenting the same in US dollars and the FX rate of Euro against USD appreciated substantially. Last year it was 1.12 and on December, 31 2020 it was 1.23, so \$437 million of euro debt has got increased to \$479 million, about \$42 million increase only because of exchange rates.
- Viraj Mehta:** In terms of cash flows for this year, is it fair to assume that now that we do not have any major CAPEX and normalization of margins is happening, all the cash flows will be utilized to reduce debt this year and onwards as well?
- T. Srinivasa Rao:** We can't say all cash, but our idea is to reduce the debt in due course, at an appropriate time we will be using the cash to reduce the debt.
- Jagan Reddy Nellore:** But your understanding is correct that we want to reduce the debt because we don't have major CAPEX anymore.
- Moderator:** Thank you. We take the next question from the line of Arvind Kothari from Niveshaay. Please go ahead.
- Arvind Kothari:** My question was on the upcycle that metals are experiencing. If you look at aluminium prices in China also, they are going up substantially.



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

So, in that kind of a scenario, I wanted to understand that we are suspending one of our facilities, Robinson, and we had already suspended Gramercy calciner a year back maybe. So, how are we preparing ourselves for the upside in the requirement of CPC given what the prices stood, they maybe reflecting higher demand going forward?

Gerard Sweeney:

Essentially you heard from our comments, we do have spare capacity from the calcination perspective. So, we have one plant that we have taken down mainly due to both market demand and raw material availability. As the demand strengthens, while we have very strong pricing in aluminum right now, we need more demand ultimately. So, as that comes back, we will return to calcining at Robinson and if we get a favorable ruling in the high courts in India we can also start up our shaft calciner. So, we are well positioned to feed continued demand growth from the aluminum sector going forward.

Arvind Kothari:

So, on both if you can give more color like how much time does it take to restart the calciner? And, on the judgment of the Supreme Court, what is the current position of the company in terms of when it expects or what is the judgment status right now if you could elaborate?

Gerard Sweeney:

As far as starting up a calciner, it is a matter of weeks, so it is not a very protracted process to bring a facility up. So, that will not be a gating issue for us as far as meeting demand. As far as anticipated rulings of Supreme Court of India, Jagan, why don't you go ahead and make comments about that?

Jagan Reddy Nellore:

We have approached the government as a matter of fact seeking some permission for job work and we are hoping that we should get a response in the next three or four weeks. If we get a favorable response, that's fine, otherwise then we will approach the Hon'ble Supreme Court because this is one of the very few plants in the world that reduces



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

pollution in India and not increases pollution. So, we think we can approach with the proper justification and hoping that we should get favorable response in the next two to three months. Once we have that we can start the plant. And as Gerry mentioned, for a rotary kiln calciner at Robinson, it may take about three to four weeks and to start a shaft calciner, it will take about six to eight weeks.

Arvind Kothari:

And if you could give a bit of understanding on what the current dynamics are with related to metals it looks like the metal companies are making greater margins. We are being a converter on the dynamics of both our distillation and calcining business. On the distillation side what I understand is that the steel upcycle makes the availability of coal tar easier for us and that reduces our cost in that business and basically the aluminium upcycle gives us the opportunity to price our products of pitch higher because in that segment at least there are very few plants now which are working around the world except China. So, in that business, if that could increase our converter margins going forward and on the calcining side how are the dynamics given both GPC and CPC are in a rising environment with a dollar margin maybe going 20% might remain the same, is that correct?

Gerard Sweeney:

As far as the distillation margins be it coal tar pitch or the related products that we get off of the coal tar that we distill, I want to be very careful in a world where we have not seen full recovery from COVID yet in projecting too much but your basic philosophy that you've expressed would be correct. So, if we deal with the scenario of an improving commodity price for the sake of aluminum and oil price, those are favorable conditions for us from a margin perspective going forward, but we always have to balance supply and demand, how the steel industry goes and demand for steel products affects our raw material supply as well. So, we're always playing that spread between



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

our cost for raw material and our finished sales price but the momentum that's building up in a world where vaccines are being rolled out worldwide and we're seeing industries return from a pricing and from a volume demand perspective to pre-COVID type conditions is absolutely bullish and we're cautiously optimistic about what that can do for us in 2021.

Moderator: Thank you. The next question is from the line of HR Gala from Finvest Advisors. Please go ahead.

HR Gala: My question is looking from the medium-term perspective, how do you see next four to five years shaping for us for the three businesses? What will be our capital investment plans matching with that objective?

Gerard Sweeney: Over the last several years, we have essentially made the investments to carry the company for the next four or five years. So, your question is very timely. While we are still getting the investments over the last several years up and running, we anticipate ramping those investments up over the next two years and essentially getting them fully operational and producing at full rates which will give us the capacity to carry the company over the next four to five years. We're also focused on doing this in the most environmentally friendly and sustainable format because that's really the marketplace that we're facing now as a company. As you heard Jagan said earlier, we're not just essentially adding capacities in new projects but we're doing it with an extreme attention to environmental responsibility and that'll be our focus on the next four to five years as a company is really taking advantage of the opportunity in front of us to produce clean, green, environmentally friendly products for the 21st century.

HR Gala: What kind of capital expenditure we will be requiring every year to sustain the type of growth which we are expecting?



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

Jagan Reddy Nellore: Our normal Capital expenditure is going to be around \$65 to \$70 million. Our capital expenditure for all expansion projects we are talking about may be \$10- \$15 million on an average because we are not planning to make any big investments at least for the next three to five years.

Moderator: Thank you. The next question is from the line of Rohith Potti from Marshmallow Capital. Please go ahead.

Rohith Potti: My first question is on CTP business. We have seen the volumes come down steadily. I am just curious to know how do you see that going forward and if you think the graphite electrode rebound that is happening right now can help us going forward?

Jagan Reddy Nellore: Yes, we expect strong demand for all our carbon distillation products going forward and we are seeing that be it our advanced materials or coal tar derivatives and the prices in China also having substantial increase, that will have a good bearing on the rest of the world also, so we do expect strong demand at least in the near future.

Rohith Potti: Next question is on the strategic non-recurring expense of INR 55 crores. Over the last few quarters, this particular line item has been actually quite recurring. So, what is this about and when can we see this particular line item not affecting us anymore?

T. Srinivasa Rao: This is basically the expenditure incurred for the new expansion projects. While the cost incurred for creating an asset will be capitalized, but if any other expenses like operating staff recruited to run the plant or the cost of training such employees will not be capitalized, and it will be taken to the regular expenses like operating expenses. So, we are adjusting them.



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

Jagan Reddy Nellore: And one more item is the hurricane expenses which we incurred to restore the plant back to normal, we are expensing all the expenditures. When we get the insurance, we will recognize it as income which will be adjusted.

Moderator: Thank you. The next question is from the line of Pratiksha Daftari from Equitas Investment Consultants. Please go ahead.

Pratiksha Daftari: My first question is on the CPC prices. I think for last few quarters we were seeing a declining trend and then a couple of quarters it remained flat, we are now seeing an upward trend and the presentation says that the realizations have reached \$ 385. I just wanted to understand that what kind of trajectory do we expect given the demand situation we have right now and also what kind of spreads do we see given that raw material prices are also increasing.

Gerard Sweeney: You're correct, the GPC price trend had been down during early 2020, that was more reflective of demand, but as we have seen essentially less raw material available; that trend has reversed itself and that's bolstered the price recovery that you've seen in the marketplace, which is going to continue as long as global refiners are in their reduced run rate due to the global lack of demand for transportation fuels resulting from COVID. So, most of that price increase that you're seeing is related to the shortage of raw materials and rising prices for raw materials driving the finished product price. And the second part of your question I didn't get. Could you please repeat it, please.

Pratikshah Daftari: About the increase in price that we're seeing in CPC and the spreads. What kind of spreads do we see between GPC and CPC going ahead -- do we see the spread expanding?



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

Gerard Sweeney: The spread right now has basically been maintained. So, that's indicative of our cost moving with the revenue side and that's really projected throughout this year. With the 4.7 million tons of additional Aluminium production and incremental demand for CPC coming on globally, the expansion potential there for margin is there in the remainder of this year as that new aluminum capacity comes online because the demand can be driven, but it'll be the demand side that would allow us to expand our margin going forward, but I do see that as a better propensity than any squeeze on our margin through this year.

Pratikshah Daftari: Next question is about the Robinson plant. What kind of volumes have we been doing from that plant in last few quarters?

Gerard Sweeney: We've roughly been doing over the last several years about 150,000 tons a year from the Robinson plant. We have not been producing it full capacity. But that's roughly the volume that's been taken off.

Moderator: Thank you. The next question is from Vikram Sharma from Meraki Wealth Management. Please go ahead.

Vikram Sharma: Sir, we are facing many problems in ongoing CAPEX. What total amount of cost increase in our ongoing CAPEX due to delay in projects? And also, many things are on track now. Then what problem we are facing related to limited construction workforce availability?

Jagan Reddy Nellore: I would say that we are experiencing project cost increases of over 10% to 15% because of the delay. Because of COVID in India the workforce has come down and they are back to pre-COVID level now, the workforce is about 60% of what was needed. They are in the final stage of completion. Similarly, HHCR plant is more or less complete and the production has commenced. Now that we don't have any major investments, this should not impact us anymore.



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

Vikram Sharma: And in HHCR, in our investor presentation, you mentioned operation team continue to manage issue. So, what is issue exactly?

Jagan Reddy Nellore: Normally most of the HHCR projects uses a particular raw material but we are actually trying to use materials that we have and so we are having a little more issue trying to use these new types of raw materials and it takes a little longer to stabilize but the advantage of using this, we will be able to reduce the raw material costs substantially. We are on the right trajectory, we are slowly getting there and our products have been approved by a few of the customers, we are getting the required qualities, but to stabilize a plant and especially HHCR plant is a very-very complicated plant. So, it is taking a little extra time, but I am very sure that our team will be able to get there so.

Moderator: Thank you. The next question is from the line of Gunjan Kabra, who's an individual investor. Please go ahead.

Gunjan Kabra: In the conference call of Alcoa, they guided that they project CPC price to increase in the first half of 2021 and also in the Koppers concall they highlighted that the availability of coal tar next year will increase in the US and they will not have to import from Europe and other countries by reducing their costs. So, where do we see the prices and the availability, cost of coal tar going forward for Rain Industries? Can we expect a better margin in this division going forward?

T. Srinivasa Rao: Both in the CPC business and CTP business, the pattern of changes between raw material and finished products will be the same. If continuously raw material prices are increasing even the finished product prices will be increasing. Mr. Gerry also explained in the beginning that there is so much of aluminum production is taking place in China and rest of the world, there is more demand for the product and



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

China exports are also declining. This will result in increase in the prices for both CPC and CTP.

Gerard Sweeney:

To add to what Srinivas just said, earlier I was talking about the supply-demand economics on calcination. So, you are asking more from the distillation side. While the steel industry is essentially still depressed due to COVID and demand factors, we are comfortable with the opportunity that we have this year from the distillation side. We do not see the gating issue as much from demand because of the lesser number of players from the distillation side that are in the coal tar pitch markets. So, overall, we are cautiously optimistic about the opportunity that 2021 and continually increasing demand will provide for the distillation business.

Moderator:

Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor:

Firstly, if you could give the average utilization level, how have they planned out over the last six months and what was the average for the entire last year for December '19 across the verticals?

Jagan Reddy Nellore:

I would say except India where we had shut down the plants for about four to five weeks, capacity utilization in 2019 and 2020 is almost same. Just to give you an idea Carbon segment is about 80% utilisation and Advanced materials segment is about 60% utilization in 2020 and you will see improvement in 2021, in advanced materials because we have consolidated our resins plant in Duisburg as Netherlands plant is closed and the demand has picked up quite a bit. In regard to Carbon segment, except the plants that are not operating due to various reasons, be it Robinson and the India SEZ plant, we expect the average capacity to be above 90% this year.



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

Saket Kapoor: With the sale of the unit, how much will be decline in the revenue in absolute terms? The existing one will be ramping up from 60 to 90.

Jagan Reddy Nellore: The business we sold was contributing about \$40 million of revenue.

Saket Kapoor: We also see this depreciation part also being higher. What is our current capital work-in progress and what are the new projects that are planned to be capitalized in the near future?

T. Srinivasa Rao: In 2020, the depreciation is higher for two reasons; reason one is we have capitalized HHCR plant in June 2020 quarter and so we started providing depreciation on that though the trial productions are going on and revenues are not generated we are depreciating, because the plant is ready and construction is completed. Apart from that we also have implemented the new lease standard where the assets taken on operating lease also is expected to be capitalized, that has resulted on a quarter about \$3 to \$3.5 million additional depreciation, but that is only reclassification of operating expenses, lease rentals into partly as depreciation and partly as interest. The three projects under construction are the ACP projects in India and US. Once they are completed, we will be capitalizing. And the vertical shaft plant also what we are constructing in SEZ in Vishakhapatnam, India, that also gets capitalized once the construction is completed by mid of 2021.

Moderator: Thank you. The next question is from the line of Tirath Muchhala from Elusive India Advisory. Please go ahead.

Tirath Muchhala: About a year ago, when we broke out the advanced materials segment, there was a focused thrust on catering to battery technologies or energy storage technologies and there were a few senior recruitments that we had done. My question is that are you seeing increased demand from



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

those industries be it lithium-ion or any other kind of energy storage industry?

Jagan Reddy Nellore: Yes we are seeing demand from the battery industry to an extent that we are not able to service that and we are trying to figure out whether can we do a small investment or something like that so that we can get there to be able to meet this demand. Whatever we said last year, we are seeing the increased demand, and it is growing, and our team is doing a good job to make the products required.

Tirath Muchhala: Any kind of expansion in that segment, would it be R&D related or would we need to acquire some expertise or how would it work or is it not a material contributor to our company even going forward?

Jagan Reddy Nellore: No, it will be our own proprietary technologies. We do not need to acquire from anywhere outside, it will be based on our own R&D and it is a product that we make, but the demand is for much larger quantities.

Moderator: Thank you. The next question is from the line of Bhavesh Patel from Patel Investments. Please go ahead.

Bhavesh Patel: My question is when do we expect our Germany plant which produces the water-white resins to get close to 100% utilization? I know this is forward-looking but just to get an idea because we have signed up and seen some success with initial customers and important because this is our highest margin product comparatively?

Jagan Reddy Nellore: The plant should reach the capability to produce at higher capacity probably in the next two to three years, but our product has been tested by various customers and it has to be accepted. So, the trajectory may be a little bit higher. So, this year for 2021 we are targeting a capacity



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

utilization of about 60%-70% and probably in an increased ramp up in the next two years or so thereafter.

Bhavesh Patel:

In next 4-5 years, you have listed out your priority to reduce debt. Do we consider for us to be able to achieve close to 15% to 20% of the current debt that we have on the books, that sets up for a very-very strong future ahead with much lesser drag on from the debt that we have which is close to a billion dollar?

Jagan Reddy Nellore:

If you look at debt, we have a one billion dollars, but our net term debt as of December it's only about \$800 million plus. Gerry was mentioning earlier, in the last seven-eight years we've been continuously investing on projects and we want to bring down that and we should have improved cash flow both from our normal cash flow as well as contributions from these new projects should improve cash. So, based on that, our target is to reduce the debt in the next few years and I cannot comment on how much exactly we can pay but we do expect that it should come down. Our target Debt-to-EBITDA ratio should be to be well below 2.5 as soon as possible and we want to bring down our average interest rate to about 4% which we are hopeful that we can do it in the next one and half years.

Moderator:

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

Akhilesh Kumar:

Just in the call, I have heard Jagan and Sweeney mentioning that our vertical shaft plant is complete, and we are just waiting for the government permission for importing the GPC. So, if I take on that your estimate of say 1-2 months to get the government permission and then additional 1-2 months for plan to restart, effectively we are hoping for not before Q3 to start right?



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

- Jagan Reddy Nellore:** Q3 may be a possibility.
- Akhilesh Kumar:** That also only if we don't end up going to Supreme Court, right?
- Jagan Reddy Nellore:** This time we have asked for permission from the Government and hoping that government will take a favorable decision soon.
- Akhilesh Kumar:** Our Indian smelters, are they not still facing any issue constant because of these import quotas of CPC or they are not approaching government or Supreme Court?
- Jagan Reddy Nellore:** Our thought process is that the next time we want to request the smelters also to join in if we have to approach Hon'ble Supreme Court because it's impacting all of us. especially now that the various press statements state about Nalco increasing capacity, Vedanta's expansion plans, and India is promoting Atmanirbhar Bharat respectively. If you want to maintain all of this, India's production has to increase. And one good thing as we said earlier, this process actually reduces pollution in India and doesn't increase. With all these benefits, we hope to see the government taking a favorable decision soon.
- Moderator:** Thank you. We'll take that as the last question. I would now like to hand the conference over to Mr. Jagan Reddy for closing comments.
- Jagan Reddy Nellore:** Two months into the first quarter, there is ample reason to be cautiously optimistic about 2021. With the recent introduction of COVID vaccines around the world and a steady decline in the number of positive cases, demand for many of our products is nearing a return to pre-pandemic levels. The surge in aluminum demand and LME prices is also very



RAIN INDUSTRIES LIMITED

*Q4 2020 Earnings Conference call- Edited Transcript
February 25, 2021 at 5:30 PM IST*

positive, and a sign that we could be entering a commodity super cycle with a multi-year growth trajectory.

In the months ahead, top priorities will be to further ramp up sales and production of our advanced resins and to commission the shaft calciner and ACP production facilities.

Beyond that, we know that we must continue to aggressively manage costs – including a reduction in CAPEX spending as our major projects are completed. At the same time, generating new and reliable cash flows will allow us to reduce the Company’s debt profile.

Finally, we must continue our metamorphosis into a 21st century company that transforms industrial by-products into essential materials for lighter, cleaner, and faster products and applications that have the dual benefit of creating new market opportunities for our company and driving long-term value. In a society where “sustainability” is quickly becoming a license to do business, our ability to maximize the productivity of carbon by “upcycling” these by-products make RAIN an indispensable player in an increasingly sustainable society.

Thank you all for joining us today. Best wishes in the months ahead, stay health and safe, and we will speak with you again in next quarter. Thank you very much.

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.