RAIN INDUSTRIES LIMITED

RIL/SEs/2024 February 29, 2024

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

Dear Sir/ Madam,

Sub: Transcript of Management Commentary on Annual Audited Financial Results for the Quarter and Financial Year ended on December 31, 2023 – 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 Commentary on Annual Audited Financial Results (Standalone, Consolidated and Segment) for the Quarter and Financial Year ended on December 31, 2023.

This is for your kind information and record.

Thanking you,

Yours faithfully,
for Rain Industries Limited

VENKAT RAMANA REDDY SINGIDI

Digitally signed by VENKAT RAMANA REDDY SINGIDI
Date: 2024.02.29 20:13:53 +05'30'

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Good day ladies and gentlemen.

This is Saranga Pani, General Manager Corporate Reporting and Investor Relations at RAIN Industries Limited. Welcome to the RAIN Industries Limited Q&A session for the Fourth quarter of 2023.

With me on the call today 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

Following the Earnings Presentation and Management Commentary that we released on February 24, 2024, we have been receiving questions from certain investors and analysts regarding industry developments and the status of our expansion projects. Accordingly, RAIN Management will be addressing those questions in today's call.

Before we begin, management would like to mention during this call, we may touch upon forward-looking statements, which encompass various topics such as performance, trends, objectives, and strategies. Please be aware that these statements are rooted in our current expectations and may be influenced by potential risks and uncertainties. Certain factors could potentially lead to outcomes differing from those predicted by these forward-looking statements.

With that, we will now start the discussion.

Sarang

Gerry, the first question is with regard to our margins. As we mention ourselves a converter, acknowledging even a one quarter lag effect, shouldn’t the margins have been stabilised by now? Why didn't we see that in the last quarter? Are we really a converter or is there a change in our business model?

Gerard Sweeney

Thank you. This is a good question. Yes, we are historically a converter and both our Carbon Calcination and Distillation businesses run on a managed margin business model concept. As we mentioned several times during the upcycle in our business, just because we are a converter, and focus on managing our margins, does not mean we are not a cyclical business. We still have cycles to our business. As a converter, we strive for a stated margin of $70-90 per ton for our product. Our product and raw material prices do vary depending on demand. As such, as a converter, regardless of the pricing cycle, high or low, we strive to manage the business in a margin range of $70-90 per ton. This is what provides for our normalized earnings level of $60-80 million per quarter.

Post Covid, from early 2021 until the end of 2022, we experienced strong demand that led to escalating pricing throughout the period. As a result, we had higher than usual margins, due to the constant run up of product prices far and above our raw material prices. We called that an “opportunity margin,” where we made margin above our normal $70-90 per ton target. As reiterated during our calls, it is essential for investors to maintain a realistic perspective regarding our quarterly earnings, particularly in relation to normalized margins. While we have seen higher margins in some quarters, it is crucial to understand that sustained earnings above normalized margins may not always be the norm. Our commitment remains steadfast in delivering sustainable growth over the long term, even if it means fluctuations in some quarters.

In the first half of 2023, our markets experienced a significant downturn, primarily triggered by the resurgence of Chinese exports amidst their economic slowdowns. This led to a gradual retreat in prices throughout Q2, with some stabilization observed mid-year. However, the summer months saw a further decline in prices, fueled by a reduction in raw material costs, largely driven by increased Chinese exports once again. Since then, the market for our products has witnessed a steep decline, plummeting from previous highs ranging between $900 to $1400 per ton depending on the product, to current levels hovering around $400 to $700 per ton.

While it would have been ideal for prices to decline steadily, mirroring the market's ascent, the reality has been a protracted and erratic descent. This prolonged downturn has hindered our ability to swiftly recalibrate raw material costs and restore our customary margins. Over the past few quarters, we have been relentlessly tailing product and raw material prices as they fluctuate downwards.

Encouragingly, we believe we have now reached the market's nadir in Q1 and are hopeful about a return to more conventional earnings in the first half of this year. However, it is important to acknowledge that we still have to work through overpriced inventories to attain this goal. This challenging market environment underscores the importance of adaptability and strategic decision-making in navigating through turbulent times.

Sarang

Next Question: Management mentions a normalized EBITDA of $70-90 per ton margin as a converter. Does that mean this should result in a higher margin percentage realization during lower pricing periods?

Gerard Sweeney

Absolutely, you are exactly correct. It is a proven fact that re-establishing our margin percentage will yield a higher realization percentage compared to when we had higher pricing. This historical trend underscores why we prioritize discussing our business in terms of unit margin rather than percentage margin. Whether our product is priced at $300 or $1000 per ton, our focus remains on maintaining our normal per ton margin. This approach ensures that we remain resilient and adaptable to market fluctuations, ultimately safeguarding our profitability.

Sarang

Thanks Gerry. The next question is whether we still have some high value inventory carrying over from the last few quarters or are we done with those at the end of Q4? Also, can we expect contribution on the delayed and deferred shipments of Q4CY23 in the coming months?

Gerard Sweeney

Thank you for this question, as it allows me to explain more clearly what has been happening during this prolonged fall in product prices. We have made considerable progress in utilizing our high-value inventories from the previous year. While we do not have precise figures, it is likely that we will deplete the remaining stock by the end of Q1, positioning us for profitability across most products by Q2. However, our focus will be on restoring our traditional managed margins as we navigate through this inventory clearance phase, presenting a challenge we are eager to tackle in Q2. Rest assured; we are fully committed to achieving this goal as swiftly as possible.

Sarang

The next question is, in the opening remarks it was mentioned about some additional CPC and CTP capacity to be introduced in India and elsewhere. Is it possible to quantify the upcoming capacities and mention the regions in which these capacities are likely to come up? Will this negatively impact the demand-supply scenario for both the products?

Gerard Sweeney

In the short term, the imminent capacity additions, constituting 10-15% of the existing capacity in this region, may pose challenges to the demand-supply equilibrium for both products. However, looking ahead over the next couple of years, we anticipate a gradual absorption of this incremental production with the demand arising from the aluminium capacity expansions in India and the Middle East. These expansions of CPC and CTP are poised to align with new customer expansions, fostering a more balanced market landscape. At present, beyond these forthcoming expansions, there are no confirmed plans that have come to our attention. This forecast underscores a strategic approach to navigating market dynamics while maintaining a vigilant eye on potential opportunities for growth.

Sarang

What are the capacity utilizations for carbon and advanced materials in CY23 and what can we expect in 2024?

Gerard Sweeney

Our Carbon segment operated in the range of 65-70% during 2023. Our Advanced Materials segment operated at a capacity utilization of 75%. As we navigate through the ebbs and flows of our industry, it is important to acknowledge the seasonal variations that impact our operations, particularly with certain products. Historically, we have observed lower demand for our seasonal offerings during the fall and winter months, aligning with our fourth and first quarters, respectively.

While we cannot pinpoint exact targets for plant capacity utilization in 2024, we are optimistic about the trajectory ahead. We anticipate improved capacity utilization in our CPC plants as we progress through the year, given the recent relief granted by the Hon'ble Commission for Air Quality Management or CAQM from petroleum coke import restrictions in India. Also, given the disruption to global shipping due to recent hostile acts, we are hopeful our Advanced Materials segment will continue to benefit from the higher demand we are currently experiencing in the future..

Sarang

Our next question is relating to Advanced material segment, Europe has seen an exodus of major players from the chemicals industry as well as closure of aluminum smelters. Will this have had an impact on RAIN's customer and supplier base?

Gerard Sweeney

It is true that European chemical industry has seen a major impact over the last several years. This is mainly due to oversupply in the region. In most cases, we are or were not direct competitors with large players like Dupont, BASF and others in the marketplace. They made huge volumes of fairly stock chemicals in a standard grade. We are a more niche player making specific chemical compounds for our customer base. The only impact we are seeing specific to consolidation of these major players, is on the side of some raw material supply. We are comfortable with our position though, and our placement in the market long term.

Sarang

Are there any segments/ products within the advanced materials business that are facing structural headwinds and may need to be reviewed from a business viability perspective going forward?

Gerard Sweeney

In the volatile landscape of Advance Materials, challenges are commonplace, particularly with fierce competition from Asian players. However, our strategic niche in Europe, specializing in custom compounds on a local scale, affords us resilience amidst these headwinds. While growth may be tempered, our focus remains on adding substantial value to downstream feeds, ensuring stability and sustainability in the long term.

Sarang

The advanced materials business was a disappointment in H2 2023. Though not a subject of impairment, the continued low margins despite plant reopening are a cause of concern. what is the roadmap to get to higher EBITDA (at least 15%) for this product group?

Gerard Sweeney

While the Advanced Materials segment faced challenges in the second half of 2023 due to plummeting product prices, we have successfully navigated through this phase and anticipate brighter prospects ahead. Our strategic restructuring initiatives and the reduction of major capacities in Europe, are poised to bolster our historical margins and position us for sustained growth in the future.

Sarang

Can you provide the capacity utilisation of the HHCR plant for the last six months and the expected utilization for 2024?

Gerard Sweeney

In regard to the update on the HHCR Plant, we are currently operating at about 30% - 40% capacity. With two major suppliers permanently closing their European operations and the ongoing Red Sea shipping crisis, our customers are reassessing their procurement strategies. To ensure a steady supply, they are increasingly considering the local sources. This strategic shift is resulting in an uptick in sales demand, underscoring the resilience of the HHCR business. As we navigate these challenges, we remain optimistic about our trajectory, buoyed by the prospect of continued improvement alongside broader economic recovery.

Sarang

What is the expected capex for 2024?

Gerard Sweeney

We expect the capex for 2024 should be in the range of US $75-80 Million including turnaround costs. This is our normal level of Capex without any major projects.

Sarang

Thank you, Gerry. We now have a few questions for Jagan. The first question is relating to the recent CAQM order. Have we got full import freedom for our new vertical shaft plant (SEZ)? Can we import RPC as well CPC for blending? When can we expect the announcement on SEZ unit commissioning to the full capacity? And restarting of the second line that was closed earlier? With the latest CAQM orders can we expect the capacities to be utilized above 90% plus? If yes, how soon?

Jagan Nellore

Thanks, Sarang. We are pleased with the relief granted by the Hon'ble Commission for Air Quality Management or CAQM by relaxing petroleum coke import restrictions. The overall limit for import of RPC by Calciners was increased from 1.40 million tons per annum to 1.90 million tons per annum. All Calciners in India would benefit from such increase in limit for importing RPC into India. Further, CAQM has also increased the limit for import of CPC by Aluminium Smelters from 0.5 million tons to 0.8 million tons from Financial Year 2025-26; considering the incremental production of Primary Aluminium in India. Further, our Vertical Shaft Calciner set-up in the Special Economic Zone is eligible to import both RPC and CPC for use within the SEZ Plant. These measures would help us to increase the capacity utilization of our CPC Plants. We already initiated various steps for ramping-up the capacity utilization; including discussing with both our customers for incremental supplies and with the suppliers for sourcing incremental sourcing of raw-materials. We also need to make logistical planning to source higher volume of raw-materials and supply higher volume of finished products to Aluminium Smelters. There will be gradual improvement in Capacity Utilization over next few quarters. The increased capacity utilization would certainly lower the per ton fixed costs.

Sarang

Thanks Jagan. Moving on to the next question, Query regarding comparing RAIN's underperformance in its Carbon segment versus its competitors in India. We have noted that competitors results are not impacted as much as the profitability impact on RAIN in the recent past. Why our operating margins are less than competitors in India in carbon segment in last few quarters.

Jagan Nellore

Our performance is not comparable to other players in the industry, primarily because we operate on a global scale, with operations and plants strategically positioned across three continents. It is crucial to acknowledge that the market dynamics in India significantly differ from those in other parts of the world.

In the past, we proactively maintained higher inventory levels of various raw material grades in India to safeguard against potential disruptions in RPC supply resulting in shutting down of calcination facilities. This was essential to ensure uninterrupted facility operations, in the event of lower allocation or delays in import allocations and to meet the stringent quality specifications demanded by our valued customers. However, this approach, while necessary, had its drawbacks, particularly when faced with fluctuating raw material prices. The elevated inventory volumes exacerbated the impact of falling raw material prices, resulting in increased costs and operational challenges. However, our strategic approach, including increased capacity utilization and optimized import limits, empowers us with operational agility in sourcing raw materials.

Moving forward, we are committed to enhancing our operational efficiency and flexibility, leveraging our global presence and optimizing our supply chain management. By doing so, we aim to mitigate risks, drive down costs, and further strengthen our position in the industry.

Sarang

Moving on to the next question, we have not heard any update on our many of the new areas we embarked upon few years back which included vertical farming. Any progress on them? Any new plans to install solar power plants which got scrapped long back, given that we had surplus land to utilize for same?

Jagan Nellore

We continued with our Green Power Initiative of Solar Power Plants for captive consumption within our Cement Plants. We have aggregate capacity of 19 MW within our Cement Business and combined with our Waste-heat recovery Power Plants at both our Cement Units; we generate 40% of our electricity consumption captively within the Company. Our immediate target is to implement the Global CPC Blending Project as quickly as possible. We had worked on such Global CPC Blending Plan until July 2018, before introduction of import restrictions in India. We have to make commercial, operational, and logistic changes to increase the capacity utilisation of CPC Plants over next few quarters.

Sarang

Moving on to the next question, we had developed ACP thorough R&D back in 2018 and continued to develop that product. In last management commentary it was mentioned that the product is in testing by smelters. Now with RPC restrictions relaxed, what is the future plans with our ACP plants? Are we going ahead with them or reviewing them? Please confirm whether management expects significant contribution from that product in 2024. To our understanding blended CPC and ACP are supplementary, is that correct? If so, will we still continue with ACP Capex plans in India? If yes, when is that expected and how much Capex is needed for that?

Jagan Nellore

As an update on the progress of our ongoing R&D project focused on Anhydrous Carbon Pellets or ACP, we would like to inform that this initiative is strategically aimed at meeting the long-term demand for RPC, essential for manufacturing the ever-increasing demand for CPC from our valued Aluminium Smelters.

We have received promising feedback from couple of North American Aluminium Smelters, which has fueled our determination to enhance the competitiveness of manufacturing ACP. Our efforts are concentrated on optimizing the conversion cost while utilizing marginal grade RPC for ACP production, which is essentially high dense raw material. Notably, the utilization of ACP will not only bolster cost-efficiency but also contribute to a significant reduction in CO_2 emissions, aligning with the sustainability goals of our Aluminium Smelters.

Moreover, our exploration extends beyond mere substitution. We are actively investigating diverse applications for ACP and are diligently pursuing patent protection to safeguard our intellectual property rights. Once the operations of the ACP Plant in the USA are stabilized, we will seamlessly transition to advancing the ACP Project in India.

It is important to emphasize that while ACP does not directly contribute to incremental revenues, its adoption as a substitute for RPC or in CPC manufacturing processes for use by the Aluminium Smelters underscores its strategic importance. ACP represents a tangible opportunity for our partners to not only optimize costs but also demonstrate a commitment to environmental stewardship. ACP is a transformative journey shaping a future that is both economically viable and environmentally sustainable.

Sarang

Moving on to the next question, how do you see the Cement business performing in the next few quarters?

Jagan Nellore

The cement demand is expected to surge across South India, fueled by a multitude of factors that promise to drive sustained growth in the industry. In recent times, this region has witnessed an unparalleled momentum in infrastructure development spearheaded by visionary governmental initiatives. From ambitious road networks to transformative urban rejuvenation projects, these endeavors have not only accelerated economic progress but also propelled the demand for cement.

Moreover, the burgeoning construction of residential dwellings, both in the bustling urban centers and the burgeoning rural landscapes, has contributed significantly to the escalating demand for cement products. This trend underscores the robustness of our market and the enduring need for quality building materials to cater to the evolving needs of our communities.

As we look ahead to the promising prospects of CY 2024, our projections indicate a continuation of this remarkable volume growth trajectory. We remain steadfast in our commitment to meeting this burgeoning demand, ensuring seamless supply chains and unwavering quality standards to sustain our market leadership.

Furthermore, amidst the global economic landscape, we are pleased to report that the prices of critical inputs such as coal and fuel-grade petroleum coke remain stable and well within control. This scenario not only bolsters our operational efficiency but also safeguards the resilience of our cement business, especially considering that almost 40% of the energy required for the cement plant operations comes from captive renewable energy sources.

Sarang

Thanks Jagan. Our final set of questions are for Srinivas.

With capacity utilization going to improve in coming quarters, will working capital requirements will delay our debt reducing plan to next year? Do we still plan to reduce the debt by at least 15-18% over the next 15 months? Noted that $50 million debt is expected to be repaid in April 2025. How much more is expected to be repaid during the next one year?

Srinivasa Rao

Our plan to reduce the Term Debt has not changed. There will be incremental need for working capital with increase in sales volume, specifically CPC volume over next few quarters. We will meet such incremental need of working capital either through Working capital loans or from funds released from operations through lower prices for our end-products. We have adequate liquidity to repay the balance amount of CY 2025 Notes of US$ 50.0 million due in April 2025. Our focus is to reduce the Euro-denominated Term loan, both as per the amortization schedule and also to use any surplus cash from the business.

Sarang

What are our strategies to bring down the interest cost?

Srinivasa Rao

As we completed the refinancing of both our Long-term Debt (US Dollar denominated second-lien bonds and Euro denominated first-lien bank debt) during August'2023; before they become current and extended their maturities to September 2029 and October 2028, respectively. As Euro Term Loan B is a floating interest loan, any reduction in EURIBOR will reduce the interest cost. We are optimizing all working capital borrowings to the maximum extent possible, and we will also reduce the amount of long-term debt to reduce the interest cost, over next few years.

Sarang

The "other expenses" line time increased significantly in this quarter. What are the main reasons for the increase and are these temporary or permanent in nature? What is the likely run rate of other expenses going forward?

Srinivasa Rao

Other expense line item includes costs like power and fuel, outward freight, other selling and distribution expenses, repairs and maintenance, consultancy charges etc. The increase in the cost compared to last quarter was around 10%. This majorly include increase in the power and fuel cost in cement business due to increase in production and sales volumes compared to Q3 2023. Overall other expenses line item for the current year was lower than last year.

Sarang

What is the likely cost saving from the initiatives taken by the management such as consolidating corporate offices, optimising operations etc.?

Srinivasa Rao

We are consolidating corporate offices to optimize administrative expenses and we also initiated the process for reduction of certain workforce, to reduce the SG&A Costs. The benefit of these cost reduction initiatives will be realized partly during CY24 and fully in CY25.

Sarang

The next question is regarding the impairment loss during the quarter. We have overall Goodwill on balance sheet of approx. INR 6,000 crore. We have impaired approx. INR 750 crore. Request you to share the CGU wise impact. What is the threshold margin for carbon business below which such a review is triggered again. With the higher Cost of capital (would have increased due to increase in debt to 12.5%), the current Target operating model of 15% EBITDA for carbon is too close for comfort and management should consider aiming for a higher EBITDA target to have a sustainable business - any clarification on this would be highly appreciated.

Srinivasa Rao

We have assessed the impairment in all Cash Generating Units and also engaged Independent Experts to analyze the potential impairment in certain CGUs. Both the management estimates as well as the experts' reports were reviewed by the auditors and made provision for impairment in the CGUs of Carbon – Calcination and Carbon – Distillation. For the impairment charge in Carbon – Calcination; we have taken the revised business plan, considering the relief granted by CAQM from import restrictions in India. We are of the view that with expected normalization of the margins; with re-sets of both raw-material costs and the finished goods prices and increased capacity utilization, the realisable values will be higher than the carrying-values and we will be re-assessing them at the end of each period for any indication of further impairment and an in-depth analysis at the end of each financial year.

Sarang

The management commentary speaks about "taking additional time to implement the revised business strategy". Is this pertaining just to the CPC blending strategy or to other parts of the business as well? What is the likely duration for implementing the new strategy?

Srinivasa Rao

Over last few quarters, we are operating both of Indian CPC Plants in the range of 55% - 60% capacity utilization. Four out of six Kilns in our SEZ plant are operating at lower capacity and the remaining two kilns were not yet started, considering the shortage of raw materials. Now, we initiated the steps to start the operations at the remaining two kilns and the process of start-up would take about 3 – 4 months to start manufacturing of CPC. We also need to make logistic arrangements to handle higher volumes. Accordingly, there will be gradual increase in the capacity utilisation of

CPC Plants, even after the relief is granted by CAQM in mid of February 2024.

Thank you, Srinivas, Jagan and Gerry.

Ladies and gentlemen, this concludes RAIN's Management Q&A session for the Fourth quarter of 2023.