RAIN INDUSTRIES LIMITED

RIL/SEs/2020 August 31, 2020

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

With reference to the above stated subject, we bring to your kind notice that India Ratings and Research has revised Company's Outlook to Negative from Stable while affirming the Long-Term Issuer Rating at 'IND A'.

In this connection, please find enclosed herewith Credit Rating on the Company issued by India Ratings & Research.

This is for your information and record.

Thanking you,

Yours faithfully,
for Rain Industries Limited

S.V.R. Reddy

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India Ratings Revises Rain Industries' Outlook to Negative; Affirms 'IND A'

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AUG 2020

By Siddharth Rego

India Ratings and Research (Ind-Ra) has revised Rain Industries Limited's (RIL) Outlook to Negative from Stable while affirming the Long-Term Issuer Rating at 'IND A'. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
External commercial borrowings	-	-	March 2022	USD22.8 (reduced from USD30)	IND A/Negative	Affirmed; Outlook revised to Negative from Stable
Term loans	-	-	October 2021	USD20	IND A/Negative	Affirmed; Outlook revised to Negative from Stable

Analytical Approach: Ind-Ra has considered the consolidated profile of RIL and its subsidiaries, as the companies share a common brand, business and management and RIL is the holding company for the carbon, advanced material and cement business operating in the group. Also, two of its major subsidiaries - Rain CII Carbon (Vizag) Ltd (RCCVL; 'IND A+'/Negative) and Rain Cements Limited (RCL; 'IND A'/Negative) - have given corporate guarantees for some of RIL's borrowings.

The Outlook revision reflects a likely deterioration in RIL's consolidated net leverage in 2020, with the delay in capex programmes and the impact of the COVID-19-related disruptions likely to hamper the company's deleveraging efforts. The agency will continue to monitor the ramp-up across various additional facilities set up by the group and the progress on availability of raw material for its carbon business.

KEY RATING DRIVERS

Credit Metrics to Deteriorate over 2020: With the COVID-19-related disruptions adversely affecting the already weak demand from end-user industries and certain delays in capex, Ind-Ra expects RIL's operating performance to deteriorate over 2020. RIL's consolidated net leverage (net debt/EBITDA), which has increased steadily since 2018 due to the steady drop in EBITDA levels, is likely to exceed 6x in 2020 (2019: 4.6x; 2018: 3.6x). The interest coverage is likely to fall to around 2.5x in 2020 (2019: 3.3x; 2018: 4.3x). Ind-Ra expects the credit metrics to improve in 2021 as the company increases its capacity utilisation at various new capex facilities; however, the metrics are unlikely to recover to the 2018 levels.

RIL's consolidated revenue decreased to INR123,608 million in 2019 (2018: INR140,490 million) owing to a fall in realisations as well as sales volumes. The .consolidated EBITDA margin declined to 11.9% in 2019 (2018: 14.0%; 2017: 20.1%), primarily on account of lower profitability from the advanced materials and carbon segments

Strong Business Profile: The RIL group has been working towards diversifying its product profile. In 2019, the carbon, advanced materials and cement businesses accounted for around 66%, 26% and 8% of the consolidated revenue and 79%, 10% and 11%, respectively, of the consolidated EBITDA.

RIL has 100% ownership of Rain Carbon Inc, which operates the calcined pet coke (CPC) business of the group in North America and India. RIL is the second-largest producer of CPC globally and has a leadership position in India. The group also claims to be in the first quadrant of the global cost curve in the carbon segment vertical. It also has 100% ownership in Germany-based Rutgers through its US subsidiary, which is the global leader in the manufacture of coal tar pitch and also has the advanced material division. The company also owns RCL, which has a 4 million tonnes (mt) of cement manufacturing capacity in South India.

Linkages with Subsidiaries: As RIL is the principal holding company of the group, it has adequate financial flexibility. However, it is dependent on timely and adequate cash flow support from its subsidiaries as it does not have any operations at a standalone level. Any weakness in the credit profiles of RIL's key subsidiaries would reduce the financial flexibility of the group, thereby affecting the ratings.

At a standalone level, RIL accounted for 0.5% of the consolidated revenue of the group and around 4.3% of the total consolidated debt in 2019. The company has historically relied on timely cash flow support from its US-based subsidiary, Rain Commodities (USA) Inc (Rain Commodities) to service its debt obligations, and on Rain Commodities and RCL for dividends. Any increase in the debt at a standalone level without any back-to-back cash flow support arrangement from its operational subsidiaries would be a key rating monitorable.

Liquidity Indicator - Adequate: RIL had cash and cash equivalent of around USD196 million (including liquid investments) and undrawn revolving credit facilities of USD122 million as on 30 June 2020. The company plans to incur a total capex of USD110 million-120 million over 2020, of which capex of around USD96 million was incurred over 1H20. With its focus on debt reduction and liquidity, RIL does not plan to incur any major capex in 2021; the capex that would be undertaken would largely be routine in nature. The net working capital cycle improved to around 70 days in 1H20 (December 2019: 79-80 days) due to lower operating levels over 1H20. Despite this, the working capital debt increased to USD87 million as of June 2020 (December 2019: USD55 million) due to increased working capital requirements in certain geographies. However, some other geographies witnessed a cash surplus. Accordingly, the cash and cash equivalents has increased by USD23 million in June 2020 from USD173 million in December 2019.

RIL's major scheduled debt repayment obligations would arise only in 2025. The management plans to refinance this debt in 2022.

Carbon Segment's Profitability Impacted: In the carbon segment, RIL acts as a converter, and has the ability to pass on any increase/decrease in green petroleum coke (GPC) cost to its customers. While CPC and GPC prices generally move in tandem, the movements in CPC prices might be reflected in GPC costs with a time lag of one or two quarters due to inventory holding. During this period, the difference, if any, may have to be absorbed by CPC producers; this is one of the reasons for the decline in the carbon segment's margins to around 14.39% in 2019 (2018: 16.17%)

The margin improved to around 17.4% in 1H20 due to various reasons, including a fall in the prices of GPC, which is a crude oil derivative, depreciation in the Indian rupee, which is the reporting currency for RIL, and a lower global supply of carbon products, resulting from the lockdown in China for a portion of the period. The operating EBITDA stood at INR6,065 million in 1H20 (2019: INR11,688 million; 2018: INR15,475 million).

The segment's volumes have been falling since 2018 due to various reasons such as the ban on pet coke imports from July 2018 as well as lower end-use demand from industries that use aluminum, including sectors such as automobiles, in which the ongoing downturn has been aggravated by the COVID-19-led disruptions. Accordingly, carbon sales volumes fell to 1.26 million tonnes (MT) in 1H20 (2019: 2.62MT; 2018: 2.72MT). While end-use demand for aluminum has declined, most large aluminum smelters might continue to operate their facilities in 2020, albeit at lower utilisation levels; this would partially protect the sales volumes of carbon products, which are essential for smelting facilities. The company supplies to larger smelters at the lower end of the cost curve, and hence, is partly insulated from the volatile commodity market.

Raw Material Availability for Carbon Segment: In October 2018, the Supreme Court of India capped the imports of GPC at 1.40 million tonnes for Indian calciners, resulting in a short-fall in domestic supply of the same. In FY21, the company has received an initial allocation of 481,961 tonnes, which would meet around 69% of the requirement (excluding the new vertical shaft expansion) at its operating calcining facilities. To meet the shortfall, RIL is working towards both domestic procurement (it might have inferior quality in relation to imported GPC, which would impact margins) and additional import allocation in January 2021 from the unutilised portion of the GPC import quota. In FY20, the company received a total allocation of 657,426 tonnes (initial allocation of 553,574 tonnes and an additional allocation of 103,852 tonnes in January 2020) which met around 95% of its requirement at existing facilities.

Furthermore, the company has set up a green-field CPC plant (370,000 tonne capacity) using vertical shaft technology in the Andhra Pradesh Special Economic Zone (APSEZ), which is likely to be operational in September 2020. To meet the shortage of anode-grade GPC at this plant, RIL is setting up a 250,000 tonnes anhydrous carbon pellets facility which will be used as feedstock for calcining. The plant is likely to be operational in 1Q21. Additionally, since the new facility is in an SEZ, the management is working towards obtaining exemption from the GPC import restriction for this facility. RIL is setting up a similar 200,000 tonnes facility in the US which would also be operational in 1Q21.

Both GPC and coal tar availability is likely to be lower globally due to lower refinery runs and lower steel production levels due to the COVID-19-related disruptions. However, the management is confident that it shall have sufficient raw material to meet its requirements and would incur additional logistical costs if required to ensure the availability of key inputs.

Increasing Focus on Advanced Materials: RIL is focusing on improving the share of value-added products under the advanced materials segment and increasing its profitability through product optimisation and operating efficiency improvements. The capex to produce the margin-accretive water-white resins from its 30,000TPA hydrogenated hydro carbon plant was completed in May 2020. This product is utilised for manufacturing varied consumer products such as food packaging material, and sanitary products, which are imported to Europe. The management expects to stabilise operations at its hydrogenated hydro carbon plant by 4Q20, and believes that the product's margins would be substantially higher than that of other products within the segment. Furthermore, in March 2020, RIL shut down its loss-making facility in Netherlands, and shifted the production to its German facility. The management expects this to reduce fixed costs by around USD10 million annually, and believes the benefits would start accruing from 2Q20.

In 1H20, despite sales volumes being lower on an average basis at 0.19MT in 1H20 (2019: 0.44MT; 2018: 0.47MT), the company earned an EBITDA of around INR1,285 million (2019: INR1,490 million), indicating an improvement in the margins to 9.4% in 1H20 (2019: 4.8%; 2Q20: 13%).

COVID-19 to Impact Cement Segment's Profitability: While the cement business was halted during the lockdown, the pent-up demand from unfinished projects provided a temporary push to realisations and provided some support to volumes post the lockdown over May-July 2020. However, the agency expects the COVID-19-led lockdown and the resultant impact on end-use demand over 2020 to adversely affect the cement segment's profitability.

In 1H20, cement volumes were low at 1.07MT (2019: 2.47MT; 2018: 2.3MT), while realisations were at 4,200/MT over 1H2020 (2019: IN4,182/MT) and could reduce further once the pent-up demand subsides. The cement business earned an EBITDA of INR636 million over 1H20 (2019: INR1,555 million).

Weak Standalone Financial profile; Dependent on Group Entities for Debt Servicing: On a standalone basis, RIL has minimal operations of its own and is dependent on its subsidiaries to service its debt and declare dividend. As RIL is the holding company, its revenue is in the form of dividend income, interest income and service income, apart from trading revenue. In 1H20, it earned a standalone revenue (including other income) of INR332.85 million (2019: INR1,248 million; 2018: INR2,091 million) and an EBITDA (including other income) of INR50.94 million (INR580 million; INR975 million). As of December 2019, RIL's standalone debt stood at USD47.6 million i.e. around INR3,383 million; the amount has been loaned in full to its US-based subsidiary. The debt has been guaranteed by its Indian subsidiaries - RCCVL and RCL.

In 2019, RIL received dividend of INR366.34 million; of this, INR223.54 million was received from RCL and the balance INR142.8 million from RCUSA (2018: INR846 million entirely received from RCUSA). The amount was utilised for making dividend payments to its shareholders.

Commodity Price and Foreign Exchange Fluctuations: RIL's profitability remains exposed to fluctuations in commodity prices, which depend on demand-supply dynamics. RIL is also exposed to forex risks. The company mitigates this risk by matching its cash inflows and outflows within the same currency so as to obtain a natural hedge.

RATING SENSITIVITIES

Positive: Ind-Ra expects to revise the Outlook back to Stable upon the ramp-up of the new capacity additions and substantial improvement in the profitability, leading to an improvement in the credit metrics, with the adjusted consolidated net leverage falling below 4.5x, on a sustained basis.

Negative: A slower-than-expected improvement in the operating performance, resulting in the consolidated net adjusted leverage sustaining above 4.5x, could lead to a negative rating action.

COMPANY PROFILE

Incorporated in 1974, RIL is a holding company with subsidiaries engaged in the manufacturing of cement, CPC, coal tar pitch and downstream products, including resins, modifiers and superplasticisers.

FINANCIAL SUMMARY

Particulars	2019	2018

Revenue (INR million)	123,608	140,490
Operating EBITDA (INR million)	14,734	19,656
EBITDA margin (%)	11.9	14.0
Interest coverage (x)	3.3	4.3
Net leverage (x)	4.63	3.57
Source: RIL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	4 July 2019	13 April 2018	13 February 2017
Issuer rating	Long-term	-	IND A/Negative	IND A/Stable	IND A/Positive	IND A-/Stable
External commercial borrowings	Long-term	USD22.8	IND A/Negative	IND A/Stable	IND A/Positive	IND A-/Stable
Term loans	Long-term	USD20	IND A/Negative	IND A/Stable	-	-

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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Applicable Criteria

Corporate Rating Methodology

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