



RAIN INDUSTRIES LIMITED

RIL/SEs/2023

November 7, 2023

The General Manager Department of Corporate Services BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Fort <u>Mumbai-400 001</u>	The Manager Listing Department The National Stock Exchange of India Limited Bandra Kurla Complex Bandra East <u>Mumbai – 400 051</u>
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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 third quarter ended September 30, 2023.

This is for your information and records.

Thanking you,

Yours faithfully,
for Rain Industries Limited

S. Venkat Ramana Reddy
Company Secretary



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Opening remarks for Q3 2023 Management Presentation

Introduction by Sarang

Hello, ladies and gentlemen. This is Saranga Pani, General Manager Corporate Reporting and Investor Relations for Rain Industries Limited.

In just a moment, we will take you through the performance of RAIN Industries Limited during the Third 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 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. Additionally, we will be delving into specific non-GAAP estimated financial metrics, and the accompanying slides provide the related non-GAAP reconciliations.

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



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Slide 3 – Jagan Reddy Nellore:

Thank you, Sarang and Good evening, everyone.

On Slide 3 of the presentation, we finished the third quarter with an EBITDA of Rupees 3.76 billion. This unexpected result was driven by falling product prices, delayed shipments, and a slower than expected reset to our raw materials prices. This is not a paradigm shift and was observed in the past when there was a precipitous fall in the sales prices. However, one of the benefits of a down cycle is the release of cash invested in working capital. During the last three quarters approximately US\$187 million of working capital got released.

We had expected to maintain our historically normal operating margin for Q3. However, continued firm demand for raw materials created prolonged negotiations, and ultimately did not allow us to reach our forecasted goal for the raw material prices for the quarter. As a result, our margins were squeezed during the quarter.



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Although this phenomenon was seen in prior down cycles, it was different this quarter with bit more choppiness and less predictability. A combination of firmer demand for anode raw materials in the Middle East and somewhat in China, the GPC prices dropped, but not enough relative to the drop in CPC prices. We also experienced some head winds on coal tar prices, as global availability was limited due to lower production of steel, and crude prices rose strengthening the liquids side of that pricing model. We will be more diligent going forward to anticipate the unpredictable variations in prices, especially during the times of record high prices that have prevailed for most of our products over the last couple of years.

While we clearly underperformed during the quarter, we believe it is pretty much isolated and are fighting to get back into our normal range quickly. While we entered the 3rd quarter focused on resetting our raw material prices to align with the sales price drops, we saw across our major carbon markets. This, combined with delays in customer shipments, ultimately delayed working through older higher priced inventories, especially in the Carbon calcination business.



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On the positive side, we have taken what we believe are the last of our NRV adjustments during the quarter and expect to move forward with more normalized margins, and therefore normalized earnings. Also, an important development is that the Hon'ble Supreme Court of India formally passed further action on the imports of petroleum coke into the Country to the Committee for Air Quality Management (or CAQM), which was established to address these areas of environmental regulations.

We await an official ruling from CAQM and are hopeful that there may be some relaxation on import of GPC that will likely result in increased capacity utilization of Indian CPC capacities. As a reminder, we are currently limited to running our facilities in India at about 45% of capacity because of the import restrictions.

Slide 4 - Jagan Reddy Nellore: Safety

Turning to slide 4, I want to take a minute to discuss safety, We begin every weekly, monthly and quarterly internal meeting with a review of our safety performance. Safety is given paramount important across all our



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Plants as our employees are our most important assets. Our Quest-for-Zero incidents has helped drive our Lower Total Recordable Incident Rate (“TRIR”) of 0.30 for 16 of the Carbon and Advanced Materials plants for the period ended September 30, 2023. This rate is considered best in class however, we will continue with our goal of a Quest-for-Zero. We work to achieve this through our Global safety team who implement safety programs such as our Management Walkthroughs and continuously provide Safety awareness training both in person and virtually. They also manage a safety awards program which not only recognizes our employees but also our Contractors.

Slide 5 - Jagan Reddy Nellore:

Moving on to slide 5, aluminum prices spent most of the third quarter floating around \$2,200 MT level, which is generally considered a healthy price for continued production and possible expansion. Where we have concern, is the continued shrinking of regional premiums in the US and



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Europe. Some smelters rely on these premiums for their regional competitiveness, and this could affect them moving forward.

Despite softer demand conditions globally, we have not seen any material effects on producers to date this year – while we have seen reduced overall demand - it has been relatively minor and contained at around 5%. This is basically considered our contractual shipping tolerance. We have also seen positive movement on smelter material costs for inputs, including alumina, calcined petroleum coke and coal tar pitch, as well as global freight rates. This can also help assuage the rather languishing LME price moving forward.

Regarding the Cement business, demand continues to be reasonably strong in South India. As mentioned during the second quarter, we have seen fuel prices coming down, which helped the third quarter back to improved operating margins which should continue in coming quarters as well.

With this business update, I will now turn over the presentation to Gerry to take you through industry and other business updates on Slide 6 ...

Gerry ...



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Slide 6 – Gerry:

Thank you, Jagan,

Hello, everyone. It is a pleasure to discuss the key commodity price trends and business update during the Third Quarter of 2023. In our Carbon segment during the third quarter, we experienced a 17% decline in pricing and a 6% decline in volumes for calcined petroleum coke or CPC compared to the previous quarter. CPC prices continued to fall in the quarter, and we saw a decline in volumes primarily related to the timing of shipments.

Moving on to the distillation side of our Carbon segment, coal tar pitch volumes increased by 2% in the third quarter. Pitch prices have decreased by 12% in third quarter compared to previous quarter driven by the drop in prices out of China, this against raw material prices drop of only \$30 per ton in the quarter. Additionally, we had increased costs due to an early renewal of a key tar supply contract in exchange for a prolongation of the contract, strategically this was important to ensure security of raw material supply in the medium term.



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In our other carbon products category, volumes have increased marginally by 1%. Finally, while sales of crude naphthalene were up slightly, prices declined due to continued softness in the construction industry.

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 a major global event or escalation of existing conflicts we do not expect any major deviations.

Our Advanced Materials segment EBITDA was down by 36% driven by lower seasonal sales, change in product mix and offset by a decline in energy costs during the quarter compared to the second quarter.

In the sub-segment of engineered products, demand for CARBORES®, which is used as a binding product in refractory materials remained flat quarter over quarter, and demand for our PETRORES® specialty coatings were relatively flat and will likely remain so until sales of automobiles pick up globally. Finally, sales of our seasonal asphalt sealer products decreased marginally compared to the second quarter,



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they were not as robust as expected this year as unusually wet weather in North America curtailed sales during the period.

Looking at our chemical intermediates sub-segment, our BTX and phthalic anhydride volumes were higher compared with the previous quarter due to a restart after maintenance shut down activities last quarter.

Moving on to resins and downstream materials, while volumes were flat, prices were off primarily related to the mix of products sold. Our HHCR facility ran smoothly during the quarter and the quality of product is meeting customer expectations.

Slide 7 – Gerry:

Moving to Slide 7 on Revenue by End-industry, as you could observe, Aluminium Industry contributed about 47% of consolidated revenues and the balance 53% is generated from varied industries including Steel, Carbon Black, etc. With continued increase in production of Primary Aluminium; there will be increase in demand for both of our key Carbon Products (CPC and CTP).



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With that, I will now turn the presentation to Srinivas, who will take you through the consolidated financial performance of RAIN on Slide 8.

Srinivas, over to you.

Slide 8 – Srinivasa Rao:

Thank you, Gerry and Good Evening everyone.

In the Third quarter of 2023, RAIN achieved consolidated net revenue of Rupees 41.43 billion compared to Rupees 55.59 billion in the third quarter of 2022, a decrease of Rupees 14.16 billion. This resulted from a decrease in revenue of Rupees 12.19 billion from our Carbon segment, a decrease of Rupees 1.78 billion from our Advanced Materials segment and a decrease of Rupees 0.19 billion from our Cement segment.

RAIN's consolidated adjusted EBITDA decreased by Rupees 6,020 million compared to the prior year. This resulted from a decrease in the Carbon segment of Rupees 6,913 million offset by an increase in the Advanced Materials segment of Rupees 788 million and an increase in the Cement segment of Rupees 105 million.



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Slide 9 – Srinivasa Rao:

Moving to Slide 9,

Revenue from our Carbon segment was Rupees 29.39 billion for the quarter ended September 30, 2023, as compared to Rupees 41.58 billion for the same period last year.

During the quarter, sales volumes decreased due to lower throughputs. The average blended realisation decreased by ~23.5% on account of lower market quotations across all regions. There was an appreciation of EURO against Indian Rupee by ~12.0% and an appreciation of USD against Indian Rupee by ~3.6%.

Overall, due to the aforesaid reasons, revenue from the Carbon segment decreased by ~29.3% in Q3 CY23, as compared to Q3 CY22.

Adjusted EBITDA of the Carbon segment decreased by Rupees 6,913 million as compared to Q3 CY22. EBITDA for the current period is lower as compared to the previous year, which included opportunistic margins from higher realisations. Further, the reduction in EBITDA is due to lower realisations coupled with decreased volumes and margin contraction, which were partially offset by appreciation of USD and EURO against Indian Rupee.



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Slide 10 – Srinivasa Rao:

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

Revenue from our Advanced Materials segment was Rupees 8.58 billion for the quarter ended September 30, 2023, as compared to Rupees 10.37 billion for the same quarter in 2022. During the quarter, there was a decrease in volumes, primarily driven by closure of aromatic chemicals business partly and decrease in realisations by 2.6% offset by an appreciation of EURO against Indian Rupee by ~12.0%.

Due to the aforesaid reasons, revenue from the Advanced Materials segment decreased by ~17.2% during Q3 CY23, as compared to Q3 CY22.

Adjusted EBITDA for the Advanced Materials segment increased by Rupees 788 million due to reduction in energy prices and appreciation of EURO against Indian Rupee offset by a decrease in volumes on account of closure of aromatic chemicals business.

Slide 11 – Srinivasa Rao:



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Moving on the next slide on our Cement business ...

During the third quarter of CY23, Cement revenue decreased by 5.1% as compared to Q3 CY22 due to a decrease in realisations of 4.7% coupled with a decrease in volumes by 0.4%.

Cement EBITDA increased by Rupees 105 million compared to Q3 of CY 22 due to improved margins and a reduction in operating costs.

Slide 11 – Srinivasa Rao: Update on Refinancing of Debt

Moving on the next slide on debt ...

During August 2023, the Group refinanced the long-term debt, extending maturity to September 2029 and October 2028. During refinancing, the Group has repaid US\$70 million in principle of long-term debt. After refinancing the group has \$450M of senior secured notes due September 2029 with an interest rate fixed at 12.25%, a Euro Term Loan B of €353.5M with a variable rate of EURIBOR plus 5% and \$50M of senior secured notes due April 2025 with a fixed rate of 7.25%. Though there is an increase in the interest rates for our long-term debt, this is in-line with the increase in the market rates over the last few years. If we notice, the Euribor which has been in negative rates since 2015 has turned to



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positive rates since July 2022 and is currently in the range of 3.5 to 4%. Similarly, while LIBOR was around 1% in 2017 and currently SOFR that replaced LIBOR is trading more than 5% in 2023. The 10-year US treasury yields also doubled over the last 5 years.

Slide 12 – Srinivasa Rao:

Now moving on to next slide on debt summary....

As we have been indicating, we expect the working capital requirements of the Group to trend towards 2021 levels when we ended the year with approximately \$346M of net working capital. As of the end of September approximately \$187M of working capital has been released, and the quarter ended with approximately \$429M of net trade working capital. The majority of the release has been driven by the calcination side of the business as prices in other areas have not fallen as dramatically.

With the refinancing in August approximately \$70M of long-term debt was repaid and with the strong cash balance we are evaluating options to deploy cash for debt reduction as we continue to pursue the long-term leverage ratio of below 3 times gross debt to EBITDA.



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From a liquidity perspective we ended the quarter with \$200M of undrawn credit facilities. Cash borrowing accounted for approximately 70% of the utilization while letter of credits to support trade purchases accounted for the other 30%.

The Group spent approximately \$56 million on its maintenance capital expenditure and plant turnarounds during the nine-months period ended September 30, 2023. We expect the full year capital expenditure and plant turnaround expenditure will be around \$80-90 million.

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

Closing Remarks – Jagan Reddy Nellore:

Thank you, Srinivas.



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Reflecting on the quarter, we acknowledge that our earnings have faced challenges due to the current economic conditions, we want to emphasize our strong belief that these are temporary setbacks and not a paradigm shift.

History has shown that economies and markets go through cycles, and although we are currently experiencing historically low earnings, we are confident that things will return to normal soon. We remain committed to adapting, innovating, and making the necessary adjustments to position our company for long-term success.

Rest assured that we are dedicated to delivering value and growth for our investors. We appreciate your patience and continued confidence in our vision and capabilities. Together, we will navigate these challenging times and emerge stronger.

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