RAIN INDUSTRIES LIMITED

RIL/SEs/2023 November 15, 2023

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

Dear Sir/Madam,

Sub: Transcript of Management Commentary – 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 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

Singidi Venkat Ramana Reddy

Digitally signed by Singidi Venkat Ramana Reddy
Date: 2023.11.15 19:45:08 +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 Third 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 November 7, 2023, 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 volumes across segments. If we look at the last 5 - 7 years, our volumes across segments have stayed the same or decreased. How and by when do we expect to grow the business?

Gerard Sweeney

There are 3 main contributing factors to volume apathy we have experienced over the last 5 - 7 years. By far the largest contributing factor has been the import restrictions on GPC & CPC into India, which was implemented back in October 2018. This greatly impacted the ability to execute our global CPC strategy which reduced volumes in the Carbon segment. Since the completion of our vertical shaft calciner project in 2020, we have been operating at only ~45% of capacity in India. We were also impacted in the US as CPC imports into India have only been allowed by Aluminium smelters, since 2018.

Also contributing to the volume reduction are both the divestment of our Polymers business in 2020, and the closure of our aromatic chemicals production in 2022. We remain hopeful that we may get some relief on the import restrictions of petroleum coke into India, which could positively impact our volumes in 2024, and we will provide more color during our next investor call in February 2024.

Sarang

Thanks Gerry. The next question is, what was the extent of order spill over from the previous quarter? Are we on track to pick up those delayed volumes to positively impact 4th quarter?

Gerard Sweeney

We did see some delayed shipments in the third quarter, which impacted our profitability. However, those were secondary. The main impact on our earnings was the inability to reset our raw material costs. Delayed third quarter volumes will be delivered during the fourth quarter. We would caution, however, that as shipments delay in a retreating market, the follow-on shipments tend to follow the same pattern. As such, we really expect volumes to be normal for the fourth quarter, as seasonal volumes depart our portfolio of demand. Any of the slippages from the third quarter will not add incremental volume to the fourth quarter.

Sarang

The next question is why there was no break-down of volume, revenue and EBITDA given for each of the product categories, which used to be provided in earlier quarters. Was there any specific reason for removal of this? Can this be provided again going forward?

Gerard Sweeney

Good question and happy to shed some light. We continue providing the detailed breakup of volumes, revenue, and EBITDA for each business segment to provide better information to the investor community.

However, the product-wise volumes and realizations have become more business-sensitive, with increased volatility across all geographies. So we took the opportunity to rearrange how we disclose volumes and revenues. Prior to doing the same, we did first take a hard look at how other companies do this in the public space as well, because we do not want to do anything that would ultimately jeopardize our business.

Sarang

Thanks Gerry, in continuation to the questions on inventories, and Inventory cycle management - what plans does management have to address NRV impacts in the future?

Gerard Sweeney

We are in a cyclical business and we are coming off an extremely strong up cycle. On some of our products, we even realized record high prices due to this super commodity cycle. Over the last two quarters, prices have fallen as much as 50%. As we have mentioned earlier, once we experience a change in market direction, there is a time lag in resetting of raw material prices, and the usage of our raw materials slows as well. This usually lasts for a quarter or two, where we renegotiate our raw material pricing, and sometimes this necessitates an NRV adjustment.

Given the market tumble from these record-high prices, selling prices have continued to trend downward for a protracted period of time. This has prolonged the process of resetting our raw material pricing and stabilizing our margins. We believe the NRV adjustments have now dealt with the falling sales prices, and barring further market drops, we believe that no further adjustments will be needed.

Sarang

Has there been any margin improvement experienced so far during the current quarter?

Gerard Sweeney

There is no doubt that this market drop has been unique, due to unique market conditions we experienced during the super-commodity cycle in 2021 and 2022. We are dealing with the drop as quickly as possible, and believe we will re-establish our margins in part, but not in total, during the fourth quarter.

Sarang

What are the normal margins for the advanced materials segment?

Gerard Sweeney

We are pleased that our advanced materials segment has returned to profitability after a very difficult 2022, due to record high energy prices in Europe. The margins for advanced materials have been moving toward normal as energy prices have declined. Currently, oil price increases have impacted margins a bit, and we are hopeful to return to normal margin levels during the first quarter of 2024. Please note, this business is seasonal in nature, with higher volumes during the second and third quarters than during the first and fourth quarters.

Sarang

Thanks Gerry, our next question is with regard to Capex. Are there any growth projects in the pipeline which RAIN is considering? What gives the management comfort that it can again invest in major growth projects given the lack of contribution from the previous investments?

Gerard Sweeney

There are no major growth capital projects currently in the pipeline. There is clear guidance from our Board for management to focus on debt reduction over CAPEX in the near term. So that is where our focus will be.

Recent major growth projects have certainly not contributed as meaningfully as anticipated, since each has encountered unique headwinds outside of our possible visibility when going through the analysis and approval process.

Our Vertical Shaft Calcination Project has been impacted due to the Indian petroleum coke import restrictions. We believe that the Government may relax the import restrictions, which is a positive development that will enable both of our facilities in India to operate at a higher capacity. That project will then start making a meaningful impact on our earnings.

Our Hydrogenated Hydro-Carbon Resins plant has been hampered by start-up problems due to the usage of advanced technology and then was greatly impacted due to record-high energy prices and falling demand for the product within Europe. After restarting the facility during the second quarter of 2023, production has been stabilized and customers are comfortable with our quality. We look forward to now building our customer base over the next few quarters and improving the performance of the HHCR plant.

We realize investors have been waiting for positive contributions from these major investments for some time now. We believe all the technical issues have now been addressed and hope to operate at a higher capacity and generate sufficient returns during 2024.

Sarang

Thanks Gerry, our next question How does the company ensure financial stability and resilience against market fluctuations, economic downturns, or other potential challenges that may arise over the long term? And what measures do we have in place to mitigate risks that could impact the stock value over a prolonged holding period?

Gerard Sweeney

As mentioned earlier, we are a cyclical business. As such, our earnings will fluctuate. We experienced some record quarterly earnings during 2021 & 2022, so once a downturn is hit, it is to be expected that we will have some quarters of adjustment. One positive about experiencing a down cycle is the release of cash back to our company, that was trapped in the working capital during the high pricing cycle. While earnings have been down year to year, we have released roughly 185 million dollars in cash back into the business. This will allow us to work toward the board's directive to reduce debt as a priority moving forward. A reduction of debt should go a long way toward improving investor confidence.

Sarang

Thank you, Gerry. We now have a few questions for Jagan. The first question is related to the Vizag calcination plant. By when can we expect the official ruling from Committee for Air Quality Management (CAQM)? In the absence of a favorable ruling, can we still increase the capacity utilization of our Indian CPC plants to more than 45%? CAQM has released a notification dated November 2nd seeking requirement requests for pet coke – are we going to request enough material to ensure 100% capacity utilization? How much is needed for Rain, including the SEZ plant?

Jagan Nellore

Thanks Sarang. To start with, we have two important developments in the last six months. Initially, the Ministry of Forests and Environment set essentially the calciner emission standards during June 2023 and all Indian Calciners are mandated to comply with those Emission standards from the middle of 2025 onwards. As mentioned in our management presentation, the Honorable Supreme Court of India in October 2023 has formally passed further action on the imports of petroleum coke into the country to CAQM and to take a decision within 3 months. We are awaiting an official ruling from CAQM and are hoping that there will be some relaxation on the import of petroleum coke that will likely result in increased capacity utilization of our Indian CPC units.

Sarang

Thanks Jagan. Moving on to the next question, what is the status of the ACP plants? Will we go ahead with the construction of the Indian ACP plant even if we do not get a favorable ruling from CAQM?

Jagan Nellore

We are awaiting feedback from Aluminum Smelters based on more trial batches of ACP tested in their Carbon Anodes and the stabilization of our US ACP Plant. Once the production of our US ACP Plant is stabilized and cost optimization is achieved, we will start the construction of the Indian ACP plant. ACP is for optimizing and improving the quality of the raw material and reducing Rain's carbon footprint.

Sarang

Moving on to the next question, In the closing comments, Management mentions that the company is "dedicated to delivering value and growth for our investors". How do we plan to do the same? As the company is trading at a deep value zone, are there any plans to increase buyback shares by the company?

Jagan Nellore

Management is focused on steering the Company through the turn in the cycle to ensure it comes out with the ability to reduce debt. We were unable to focus on debt repayments in the past due to growth capital projects. When spending on them was completed, we had to invest in the working capital requirements of the Company due to the run up in commodity prices. We believe that focusing on debt reduction will drive value for the Company's shareholders. At this time, we do not have any plans to buy-back shares of the Company and any future decision in this regard will be subject to Board approvals.

Sarang

Moving on to the next question, recently the Ministry of Corporate Affairs has relaxed norms for Indian companies to list outside of India? Does RAIN have any plans to evaluate such opportunities?

Jagan Nellore

RAIN has a Wholly Owned Subsidiary in the USA, which is the holding company for the global carbon business. Once the headwinds subside, we can consider listing of the carbon business, which is again subject to the Board approvals.

Sarang

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

Jagan Nellore

We have consumed almost all of the high cost raw materials in the inventory in Q3 and are hoping to benefit from the relatively lower coal prices currently prevailing. We also expect that the demand for cement will improve in the coming quarters with the monsoons over and the start of the construction season.

Sarang

Moving on to the next question, are there any growth plans for the company to venture into the next generation businesses such as products for supply to Lithium-ion Batteries?

Jagan Nellore

RAIN is the leading producer, outside China, for specialty coating / binding materials for carbon anodes used in the lithium-ion Batteries. These specialty coating materials comprise 7-15 % of the graphite composition and are used for both natural and synthetic graphite. RAIN has, and is developing, strategic partnerships with various producers and recycling companies to enhance its presence in this market. RAIN has plans to focus more on research, and development of synthetic graphite anode materials for Lithium-ion Batteries and will provide more color about these plans at the appropriate time.

Sarang

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

What are the terms of the newly issued senior secured notes and the extended Term loan? When can we start repaying both and what are the premiums and penalties for early repayment?

Srinivasa Rao

The Notes due 2029 are non-callable for two and a half years and carry a prepayment premium of about 6 percent until 2026, which will further reduce each year thereafter. The term Loan is non-callable for 6 months and thereafter can be repaid with no prepayment charges. The Term Loan has a principal amortization clause which requires principal payments of 2.5% in the first year and 5% in each subsequent year. These are paid on a quarterly basis with the first payment due December 2023.

Sarang

How much debt are we looking to repay over the next 12 months? What plans do we have for the remaining cash? Other than the 50 Million dollars due in April of 2025, what is the extent of debt we are planning to repay considering the working capital flexibility? And when?

Srinivasa Rao

As mentioned in the management presentation, we have repaid 70 million dollars during the refinancing in August 2023. Management is focusing on debt reduction which will come from the release of working capital. While some of it has already been generated, we are evaluating long term requirements and the best strategy to deploy excess funds, taking into consideration, tax expenses, foreign exchange rates and interest rates. Our plan is to reduce the debt by at least 15 to 18% in the next 18 months.

Sarang

What was the amount paid to the investment bankers and lawyers for the debt refinancing, and was it expensed through the profit and loss statement or the balance sheet? Does the finance cost for the quarter consist of any one-time costs, if so to what extent?

Srinivasa Rao

As mentioned in the management presentation as well as in the financial results, we have expensed the deferred financing cost of approximately 3.9 million dollars related to the refinanced debt, which would have been amortized over the next 1 to 1.5 years, till Q1 2025. We incurred approximately 20 million dollars towards the refinancing in August which is accounted for as deferred finance cost and will be amortized over the life of the debt, until 2028 and 2029. These figures can be seen in the debt schedule provided in the press release. The costs associated with the refinancing were incurred related to financial auditors, bankers, lawyers, and rating agencies .

Thank you, Srinivas, Jagan and Gerry.

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