RAIN INDUSTRIES LIMITED

RIL/SEs/2024 April 26, 2024

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 given credit rating of **'IND A/Stable** to Term Loan availed by the Company.

Please note that Outlook is revised to Stable from Positive.

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

This is for your information and record.

Thanking you,

Yours faithfully,
for Rain Industries Limited

VENKAT RAMANA REDDY SINGIDI

Digitally signed by VENKAT RAMANA REDDY SINGIDI
Date: 2024.04.26 19:44:24 +05'30'

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

Apr 26, 2024 | Specialty Chemicals

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

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Issuer rating	-	-	-	-	IND A/Stable	Affirmed; Outlook revised to Stable from Positive
Term loans	-	-	30/11/2025	INR1,700^ (USD20)	IND A/Stable	Affirmed; Outlook revised to Stable from Positive

^USD 1 = INR85.00

Analytical Approach

Ind-Ra continues to take a consolidated view of RIL and its subsidiaries, as the companies share a common brand, business and management. RIL is the holding company for the carbon, advanced material, and cement business operating in the group. Also, one of its major subsidiaries - Rain CII Carbon (Vizag) Ltd (RCCVL; 'IND A+'/Stable) have provided corporate guarantees for some of RIL's borrowings.

Detailed Rationale of the Rating Action

The Outlook revision reflects weaker operating margins, leading to the consolidated net adjusted leverage exceeding 3x in 2023 and the gross interest coverage ratio reducing to around 2.00x. Ind-Ra expects the leverage to remained above 3x and the coverage to be at 2.00x-3.00x in 2024 due to increased interest expenses. Ind-Ra also expects the return on capital employed (ROCE) to remain low in 2024, due to lower operating profits.

The affirmation factors in an increase in the allocation of green petroleum coke (GPC) imports over FY24-FY25 which the agency expects to continue in the medium term, leading to increased utilisation levels, and subsequently improving its revenue supported by the benefit of economies of scale.

List of Key Rating Drivers

Strengths

- Improved standalone financial profile; but depends on group entities for debt servicing
- Improved business scenario
- Strong business profile
- Increase in raw material availability for carbon segment
- Strong linkages with subsidiaries

Weaknesses
- Weak consolidated performance in 2023; likely to improve
- Reduced profitability in cement segment; likely to Improve in 2024-25
- Lower capacity utilisations in advance materials segment due to delayed ramp-up of plant
- Volatility in carbon segment's profitability
- Commodity price and foreign exchange fluctuations

Detailed Description of Key Rating Drivers

Improved Standalone Financial Profile but Depends on Group Entities for Debt Servicing: On a standalone basis, RIL has minimal operations of its own and depends on its subsidiaries to service its debt and declare dividends. 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 2023, the revenue (including other income) improved to INR2,033 million (2022: INR1,044 million; 2021: INR1,037 million) and the EBITDA (including other income) to INR773 million (INR478 million; INR486million). As of December 2023, RIL's standalone debt increased to around INR2,221 million (FY23: INR1,666 million), due to refinancing of the term loan, which has been invested in its US-based subsidiary. The debt has been guaranteed by its Indian subsidiaries - RCCVL. In 2023, RIL received a dividend income of INR694 million (2022: INR393 million; 2021: INR411 million).

Improved Business Scenario: Ind-Ra expects the business scenario of the calciners to improve considering the increase in cap to 1.9 million tonnes from 1.4 million tonnes based on order received from the Supreme Court of India and Commission for Air Quality Management. The group additionally receives order for being able to import GPC and calcined petroleum coke (CPC) without any limits for its special economic zone (SEZ) unit for the export sales. With increase in the allocation, the utilisations for both SEZ and domestic tariff area (DTA) units would improve the revenues and margins in 2024-25. With regards to ESG, the company already meets flue gas-desulphurisation standards issued by the ministry of environment.

Strong Business Profile: The RIL group has been diversifying its products. In 2023, the carbon, advanced materials, and cement businesses accounted for around 74%, 18% and 8% (2022: 74%, 19% and 7%) of the consolidated revenue, respectively, and 86%, 8% and 6% (94%, 3%, and 3%) of the consolidated EBITDA, respectively.

RIL has 100% ownership of Rain Carbon Inc, through its wholly owned subsidiary Rain Commodities (USA) Inc. which operates the 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 along with being the largest producer of coal tar pitch (CTP) globally. It also has 65.3% ownership in Severtar Russia through its United Arab Emirates subsidiary, which is the global leader in the manufacturing of coal tar pitch, a part of carbon segment. The company also owns Rain Cements Limited (RCL; 'IND A'/Stable/'IND A1'), which has a 4.0 million tonnes of cement manufacturing capacity in South India.

Increase in Raw Material Availability for Carbon Segment: In October 2018, the Supreme Court of India capped the import of GPC at 1.40 million tonnes for Indian calciners, resulting in a shortfall in the domestic supply. However, in the order received in February 2024, the GPC allocation to Indian calciners for domestic sales increased to 1.90 million tonnes from 1.40 million tonnes. The company received an initial allocation of 484,169 tonnes for FY25 (FY24: 426,348 tonnes; FY23: 408,928 tonnes; FY22: 451,891 tonnes) for its DTA unit. The company could also procure domestic GPC of 60,000-120,000 tonnes, increasing the utilisation levels to 75%-80%. The management expects to receive additional allocations based on its past experiences in September and December-January.

Further, 370,000 tonnes were also allocated towards the SEZ unit which the company was not able to operate earlier due to shortage of GPC supplies and which is over and above 1.90 million allocation cap for the Indian calciners. RIL would not face any shortfall for GPC utilised as feedstock (not fuel) as the GPC imports towards the SEZ unit does not have any cap that would solely be utilised towards its exports order.

RIL had planned to set up an anhydrous carbon pellet facility which could be used as feedstock for calcining to meet the shortage of anode-grade GPC due to restrictions on GPC imports. However, due to higher GPC allocation, the management planned to defer the capex as anhydrous carbon pellet facility will not be cost effective.

Strong Linkages with Subsidiaries: As RIL is the principal holding company of the group, it has adequate financial flexibility. However, it depends on timely and adequate cash flow support from its subsidiaries as it does not have any operation at the standalone level. Any weakness in the credit profiles of RIL's key subsidiaries would reduce the group's financial flexibility, thereby affecting the ratings. At the standalone level, RIL accounted for 0.68% (2022: 0.26%) of the consolidated revenue in 2023 and around 2.49% (1.69%) of the total consolidated debt. The company has historically relied on timely cash flow support from its US-based subsidiary, Rain Commodities (USA) Inc to service its debt obligations, which along with RCL also up-streams dividends. The management stated that it is reducing the debt of RIL on a standalone basis over two years. However, any increase in the debt at the standalone level without any back-to-back cash flow support arrangement from its operational subsidiaries would be a key rating monitorable.

Weak Consolidated Performance in 2023; Likely to Improve: Ind-Ra expects RIL's consolidated net adjusted leverage (net adjusted debt/EBITDA) to remain above 3.00x (2023: 3.97x; 2022: 2.29x; 2021:3.07x) in 2024 and reduce gradually below 3.00x 2025 onwards. Ind-Ra expects the gross interest coverage (operating EBITDA/ gross interest expense) to remain at 2.00x-3.00x in 2024-25 (2023: 2.07x; 2022: 6.96x; 2021: 4.92x) due to an increase in its interest expenses.

In 2023, RIL's consolidated revenue reduced 14% to INR181,415 million (2022: INR210,110 million; 2021: INR145,268 million), due to fall in the sales realisation. The company's EBITDA slipped to INR16,920 million (INR36,473 million; INR23,565 million), resulting in lower EBITDA margin of 9.33% (17.36%; 16.22%), due to margin contractions in carbon segment and higher energy cost for the cement segment. Ind-Ra expects the revenue to improve and stabilise over 2024-27 due to likely increased volumes from additional allocation of GPC imports towards the special economic zone (SEZ) unit over and above allocation to DTA unit.

The realisation in the carbon segment reduced around 10% yoy, increased around 1% yoy in the advanced materials segment, and decreased 4% yoy in the cement segment in 2023. The EBITDA for the carbon segment reduced to INR14,542 million in 2023 (2022: INR34,305 million; 2021: INR19,990 million), due to inventory booked at lower prices; the EBITDA of the advance materials segment increased to INR1,359 million (INR960 million; INR889 million) due to a reduction of energy costs while that of the cement segment reduced to INR1,019 million (INR1,214 million; INR2,686 million) due to higher energy costs.

RIL's ROCE dipped to 1.0% in 2023 (2022: 17%), due to the lower EBITDA and the impairment loss of INR7,506 million. Ind-Ra expects the ROCE to remain low in 2024-25.

Reduced Profitability in Cement Segment in 2023; likely to Improve in 2024-25: The cement volumes demonstrated stable performance so far, led by stable demand from end-user industries. In 2023, the cement volumes increased to 3.24 million metric tonnes (MMT; 2022: 3.12 MMT; 2021: 2.90 MMT) while realisations were INR4,704/MT (INR4,912/MT; INR4,774/MT). The group reported lower EBITDA margins in 2023 at 6.69% (2022: 7.91%; 2021: 19.44%) and an EBITDA of INR1,019 million (INR1,214 million; INR2,686 million) due to higher energy costs. Ind-Ra expects the segment's margin to improve over 2024-25 basis coal and pet coke prices.

Lower Capacity Utilisations in Advance Materials Segment, due to Delayed Ramp-up of Plant: The advance materials segment's revenue reduced to INR32,317 million in 2023 (2022: INR39,104 million; 2021: INR32,910 million), due to lower volumes and reduced capacity utilisations to around 39% (48%; 53%), impacted by delayed ramp up of hydrogenated hydrocarbon resins (HHCR) plants and the closure of the aromatic chemical business. The delay in ramp up of the HHCR plant was due to the slowdown in the European market following inflation and weak gross domestic product growth, as per the management. Although the profitability of the segment remained volatile, it improved to 4.2% in 2023(2022: 2.5%; 2021: 2.7%) due to a reduction of energy cost in in Europe. However, as per the management, the utilisations could improve to certain levels in 2024, due to the closure of HHCR plants of other companies in Europe, owing to high prices of natural gas and the deterioration of the raw material procurement environment.

Volatility in Carbon Segment's Profitability: In the carbon segment, RIL acts as a converter, and largely has the ability to pass on any volatility in GPC cost to its customers which are large smelters at lower end of cost curve. 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 time lag hurt RIL with its margins reducing to 10.9% in 2023 (2022:22.2%; 2021: 20.6%) due to a sharp price correction in 2023, after a spike in 2022. However, since a large portion of transactions are done in USD, RIL benefits from the depreciation of INR (reporting currency). The operating EBITDA of the segment stood at around INR14,542 million in 2023 (2022: INR34,305 million; 2021: INR19,990 million).

Ind-Ra opines the segment's volumes to increase in 2024-25, due to increased allocation of GPC to both SEZ and DTA units improving the utilisations of the plants. The demand for aluminium smelters is resuming and likely to normalise in 2024-25. In 2023, the group sold 2.32 MMT (2022: 2.43 MMT; 2021: 2.53 MMT).

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

Liquidity

Adequate: RIL had cash and cash equivalents of around INR21,825 million at end-2023 (end-2022: INR14,829 million; end-2021: INR13,386 million). The company incurred around INR5,958 million capex in 2023. The company has no plans for any additional capex in 2024-25 along with a focus on the debt reduction, the only capex that would incur would be routine/maintenance capex not exceeding INR6,680 million (USD80 million). Despite lower EBITDA, RIL has reported positive free cash flow of INR17,511 million in 2023 (2022: negative INR2,104 million; 2021: negative INR1,793 million) due to release of working capital. RIL's major scheduled debt repayment obligations would arise only in 2025, a maximum part of which has already been refinanced with the repayment scheduled in 2029.

The net working capital days reduced in 2023 to 99 days (2022: 126 days; 2021: 97 days) due to a fall in the inventory days to 86 days (115 days; 97 days). Ind-Ra expects the net working capital days to remain around 105 days in 2024-25. Ind-Ra expects RIL's debt service coverage ratio to remain comfortable at 1.5x-2.5x over 2024-25, due to minimal scheduled repayments.

Rating Sensitivities

Positive: Developments that could, individually or collectively, lead to a positive rating action include:

- a ramp-up of HHCR plant, leading to higher profitability;
- a successful ramp up and growth in revenue on the back increased sales volumes with improved capacity utilisation while maintaining the profitability
- the sustenance of the consolidated EBITDA per tonne while maintaining the working capital cycle, leading to the consolidated net adjusted leverage maintaining below 3.0x, on a sustained basis, with an improvement in the ROCE.

Negative: Developments that could, individually or collectively, lead to a negative rating action include:

- a lack of timely and adequate support from the group entities for debt servicing;
- an increase in the indebtedness at the standalone level without any back-to-back cash flow support arrangement from its operational subsidiaries;
- a decline in the consolidated EBITDA per tonne and/or an elongation of the working capital cycle, leading to the consolidated net adjusted leverage exceeding 4.0x, on a sustained basis.

About the Company

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

KEY FINANCIAL INDICATORS - Consolidated

Particulars (INR million)	2023	2022
Revenue	181,415	210,110
Operating EBITDA	16,920	36,473
EBITDA margin (%)	9.33	17.36
Interest coverage (x)	2.07	6.96
Net adjusted leverage (x)	3.97	2.29
Source: Company, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook	
	Rating Type	Rated Limits (million)	Rating	27 January 2023	28 October 2021
Issuer rating	Long-term	-	IND A/Stable	IND A/Positive	IND A/Stable
Term loan	Long-term	INR1,700	IND A/Stable	IND A/Positive	IND A/Stable
External commercial borrowings	Long-term	-	-	WD	IND A/Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument type	Complexity Indicator
Term loan	Low

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

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Corporate Rating Methodology

The Rating Process

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

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.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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