RAIN INDUSTRIES LIMITED

RIL/SEs/2024 August 13, 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: Management Commentary on Un-Audited Financial Results of the Company (Standalone, Consolidated and Segment) for the second quarter ended June 30, 2024 – Reg.

Ref : Scrip Code: 500339 (BSE) & Scrip code : RAIN (NSE)

With reference to the above stated subject, given below is the link to the Management Commentary on Un-Audited Financial Results of the Company (Standalone, Consolidated and Segment) for the second quarter ended June 30, 2024:

Link for Audio – Management Commentary:

https://www.rain-industries.com/images/RIL-Q2-2024-Q&A.mp3

Please also find attached herewith the Transcript of Management Commentary on Un-Audited Financial Results of the Company (Standalone, Consolidated and Segment) for the second quarter ended June 30, 2024.

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
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Sarang

Good day ladies and gentlemen.

Welcome to the RAIN Industries Limited Q&A session for the Second quarter of 2024. My name is Saranga Pani, and I serve as General Manager Corporate Reporting and Investor Relations at RAIN Industries Limited.

The speakers for 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 released on 6th August 2024, we have received various questions from investors and analysts concerning recent industry developments and their potential impact on our company's performance. RAIN Management will be addressing these questions during today's call.

Before we proceed, the management would like to note that during this management discussion, we may make forward-looking statements that include various subjects such as outcomes, trends, targets, and strategic directions. These statements rely on our current projections and are subject to risks and uncertainties that could cause actual results to vary materially from those suggested by these forward-looking statements. There are certain risk factors that could lead to significant deviations from our predictions.

With that, we will now start the discussion…

Sarang:

Gerry, the first question is with regard to our Carbon Segment volumes. Why have the Carbon segment sales volumes declined over the past few years? Volumes reduced from a quarterly average of 630 thousand Metric Tons in 2020, to averaging 580 thousand Metric Tons per quarter in 2023. Given the weak Q1 volume performance, where do you see average quarterly volumes coming out for 2024?

Gerard Sweeney

Thanks, Sarang. The fall in Carbon segment sales volumes over recent years is due to a multitude of reasons. There have been smelter closures and raw material import restrictions that have limited our sales. However, the fall in volumes over this five-year period represent only a 5% decline. While we always prefer to increase our sales volumes, this is a relatively minor change and within the standard +/- 10% shipping tolerance which our sales contracts all allow for transportation flexibility.

The question, however, underscores the critical importance of maintaining our business margins, especially given that our volumes have historically been quite stable. This is precisely why we dedicate considerable time during our calls to stress the necessity of re-establishing our margins. By doing so, we aim to return to our traditional earnings levels as we move forward.

Sarang:

Thanks, Gerry. The next question is why we continue to face sales volume challenges in the Carbon Segment, even though global Aluminium production has been rising for last few years?

Gerard Sweeney:

This is a good question. Our sales volumes have not grown as we would have hoped over the last few years. Despite the fact that the Aluminium price has remained relatively healthy in the last few years, we have experienced marginally less demand in our major markets for CPC and CTP. The global aluminum production and consumption increases have primarily come from China. Advancing inflation, recessionary trends, and reduced governmental spending have all tempered aluminum production in the western world.

Sarang:

The next question follows up on the previous one, Gerry. How is the Aluminium market currently? Are you seeing any improvement? Have European smelters re-started? If not, do you expect them to re-start anytime soon?

Gerard Sweeney

As mentioned earlier, the LME aluminum price remains robust at approximately $2,500 per metric ton. With inventories staying relatively low, there is a promising opportunity to ramp up production in the Western world. We are seeing restarts and expansion plans in Europe and the Americas, which are expected to positively influence the market from both a CPC and CTP sales perspective.

Moreover, it is anticipated that more aluminum capacity will be added outside of China over the next few years than has been added in the past five years. This expansion presents a significant opportunity for us to capture a substantial share of the market growth. We are optimistic about leveraging these developments to enhance our market position and drive future success.

Sarang

The next question is about the price trend over the last few quarters for both CPC and CTP, and what is your view going forward?

Gerard Sweeney

Prices of CPC and CTP have remained under pressure for the last few quarters. The progress we have made is in getting our volumes back up to normal levels after a disappointing first quarter of 2024, and in dropping our raw material prices to protect our margins. While we still have more to do related to our margins, we are pleased with the progress to date.

We do not expect much movement in CPC or CTP prices through year end. Barring any unforeseen regional conflict escalation, we expect the second half to be pretty flat on volumes and prices.

Sarang

Thanks, Gerry. The next investor question is where the Chinese calciners are in terms of the running down of the high-priced raw materials inventory levels from before the price drop? Has this now ended?

Gerard Sweeney

This investor certainly has a remarkable memory. For those who may not recall, when prices plummeted in early 2023, Chinese companies left around five million metric tons of high-priced GPC raw material stranded in their ports. The cost was too prohibitive to turn a profit, so they opted to purchase fresh raw materials at significantly lower prices instead.

Currently, it appears they are blending some of these high-cost raw materials into their production processes to start moving the inventory. This strategy is helping to stabilize and support the prices of CPC in the market. However, it will likely take several quarters for them to fully consume this stockpile.

Sarang

Moving on to the next question, what is the outlook for the Advanced Materials segment? How is the HHCR plant performing? Has the capacity utilization improved?

Gerard Sweeney

As noted in our management commentary, the Advanced Materials division has consistently performed well for successive quarters, except for the fourth quarter of 2023. This trend is expected to continue in upcoming periods. Management's strategic efforts to enhance this division's results are now bearing fruit. Within its specialized branches, Engineered Products have shown robust market presence, particularly with our CARBORES and PETRORES materials, coupled with stable demand and pricing for Chemical Intermediates, exemplified by our BTX products. The Resins sector has maintained solid operational efficiency with good production and sales volumes, including for our HHCR product line, over the past few quarters. Additionally, improvements in operating costs and the reverberations from the Red Sea situation have contributed to this segment's uplift.

Sarang.

Our next question is: During Q1 of 2024, there was a major turbine failure at our Lake Charles CPC plant that disrupted production. Has that been resolved?

Gerard Sweeney

The turbine failure was a significant event, necessitating extensive repairs. Our dedicated operations team has been working tirelessly to expedite the restoration process. Despite their relentless efforts, we anticipate that the turbine will not be operational until early October 2024.

Sarang

Thank you, Gerry. We now have a few questions for Jagan. The first question is relating to the India CPC business. When can we expect the CPC plant in SEZ area to be operating at near full capacity? Can it ramp up in the third quarter of 2024, or it will be possible only towards the fourth quarter?

Jagan Nellore

Thank you, Sarang. Reflecting on the management commentary and previously mentioned by Gerry, India's Regulatory Authorities have granted permission to import Green Petroleum Coke (GPC) as raw material for our Special Economic Zone (SEZ) plant. This decision aligns with the mandate issued by the Honorable Commission for Air Quality Management (CAQM) under directives from the Honorable Supreme Court of India. This approval will facilitate ramping up the SEZ unit's production up to its capacity by the end of calendar year 2024. We are, however, awaiting further authorization from the Regulatory Authorities to import Calcined Petroleum Coke (CPC) into our SEZ facility for blending purposes, which CAQM has also approved in their ruling. Presently, the plant is functioning at two-thirds of its potential capacity; with the green light to import Raw Petroleum Coke (RPC), we have begun preparations to commission the final one-third of the production capabilities. The gradual heating process of the Vertical Shafts, requiring approximately three to four months for each kiln before commencing commercial output, leads us to anticipate that the additional capacity will be functional by December 2024. Concurrently, we are diligently pursuing operational strategies to achieve full capacity and exploring commercial avenues to boost our sales volumes in the Middle East and beyond.

Sarang

Thanks, Jagan. The next question is about the reducing realization per metric ton of carbon, which is making it difficult considering that RAIN has a higher interest cost and is not able to get better pricing for our products. What can we do to overcome this situation?

Jagan Nellore

Over the past 18 months, we have faced significant market challenges that have made it incredibly difficult to restore our margins. The core issue was that our selling prices dropped more rapidly than our raw material costs. This created a pricing gap, particularly with Chinese competitors, whose prices were sometimes over $100 lower than ours. While we did not experience a significant volume pressure from China, they were the first to reduce prices, a trend that quickly spread across Asia and then globally.

Throughout this period, our costs remained higher than our sales prices, which put considerable strain on our margins. However, we are now seeing the light at the end of the tunnel. We are in the final stages of this challenging phase, and the positive news is that we are successfully re-establishing our unit margin per ton. This progress is crucial for returning to healthier earnings.

Further the CAQM order should also unbridle our global calcination operations and provide more flexibility for us to improve our production, sales and unit margins going forward.

Sarang

In previous quarterly calls, management had guided that we would achieve normalized operating margins in the second half of 2024, but now this has been pushed to 2025. What is the reason for this change?

Jagan Nellore

We had anticipated a faster acceleration of our Carbon supply chain into Asia this year. However, unforeseen delays have extended our timeline, and the market recovery has been slower than expected. Consequently, we have revised our guidance to the first half of 2025.

Despite the challenges, we are pleased with the progress made in re-establishing our unit margins during the first half of 2024. Nevertheless, there is still significant work ahead. The delay in obtaining Indian regulatory permissions for import of GPC for use as raw material until July 2024 has been a major setback. Additionally, we are still awaiting approval to import CPC into our SEZ Plant. Our previous guidance had assumed these regulatory issues would be resolved more swiftly.

Sarang

Thanks Jagan. Moving on to the next question, Have the operations in the US ACP plant been stabilised? What is the status of Indian ACP plant?

Jagan Nellore

Few customers are interested in RAIN's calcined ACP for their anodes as a way to cut down on greenhouse gas emissions, yet the production costs of calcined ACP remain high. Consequently, with the current low prices of CPC, those customers are choosing to stick with regular CPC over calcined ACP. Therefore, our research and development teams are dedicating efforts to lower the production costs of ACP. Additionally, with the recent approval from CAQM for importing needed amounts of RPC for our SEZ Unit, we are concentrating on enhancing the capacity of the unit’s vertical shaft CPC kilns. The Capex for our ACP output has been postponed to the following year, allowing us to refine the total capex for 2024 and to accommodate the increased working capital needs due to the augmented CPC capacity.

Sarang

The next question pertains to our Advanced Materials Segment whether there is any scope to establish a partnership or JV for new age materials?

Jagan Nellore

Up to this point, the development of our "New Age" materials such as CARBORES and our PETRORES proprietary products for energy storage, have been made by RAIN itself. On 7th August 2024, we issued a press release announcing RAIN's investment in a new, state-of-the-art innovation center for energy storage materials (ESMs) in Hamilton, Canada. This cutting-edge research and development facility is set to commence operations in the first quarter of 2025. The center is poised to play a pivotal role in advancing the field of energy storage, leveraging RAIN's uniquely integrated in-house raw materials. Given our expertise and resources, several companies have expressed interest in collaborating with us on future ventures. We are open to exploring these opportunities, provided they align with our strategic goals and terms.

Sarang

Do we see this as the next area of growth for the company?

Jagan Nellore

Absolutely! As just mentioned, we are investing in the Innovation Center for ESMs to expand within and beyond our existing, strong product portfolio in the battery materials space. We have recruited a team that has the highest technical knowledge of ESMs, and the demonstration facility is expected be operational during the first quarter of 2025. Its location in North America is central to this strategy as we see North American governments heavily subsidizing investments in building a battery supply chain in North America to reduce reliance on key products coming from Asia.

Sarang

As a follow-up, the next question is when do you see meaningful contribution from the renewed R&D focus by the company?

Jagan Nellore

We are positioning ourselves to develop new products and understand their true value in this emerging industry. Consistent with our 150+ year history in this industry, we are interested in developing products, not selling our technology. We intend to remain an industrial products supplier to global businesses, but it is little early to project revenue and/or earnings from these products.

Sarang

Thanks, Jagan. The next question is whether it makes sense, to sell-off the cement business and use that cash to trim down the company's debt considering the current high interest expense?

Jagan Nellore

We acknowledge that our interest expenses have increased in the current economic environment, and we recognize the need to address this through deleveraging. However, divesting any part of our business is not a strategy that the management or Board is considering. Historically, there have been periods when the carbon business faced challenges, and the cement business played a crucial role in supporting the group, and vice versa. Despite their differences in business and operational perspectives, we function as a unified entity and intend to maintain this integrated approach moving forward.

To reiterate a point from our management commentary, the cement industry in South India is currently poised for robust performance due to several factors. These include the ongoing consolidation within the industry, where larger players are acquiring medium and small enterprises, the government's increased focus on infrastructure development and housing schemes, the widespread industrial expansion across the country, and the stabilization of operating costs. Given these favorable conditions, RAIN remains committed to the involvement in the cement business.

Sarang

Moving on to the next question, can you quantify the cost savings the company achieved through measures already taken? What other cost-savings measures are pending, and how much would they entail in terms of one-time costs?

Jagan Nellore

As part of our management's agenda, we have undertaken a comprehensive reassessment of our workforce at our two facilities in Germany. This decision follows the conclusion of our union agreement with the Works Council, allowing us to thoroughly evaluate our employee base. Given our substantial investments in innovative technologies and the optimization of plant assets in Germany, we have determined that our traditional workforce size is no longer necessary. Consequently, we have decided to reduce a sector of our workforce. While this decision is challenging, it is a logical step for the business. We extend our best wishes to the affected employees and anticipate annual savings of approximately €4.5 million.

We are also focusing on the strategic advantages of our North American assets, primarily located in the US Gulf of Mexico region. This area is in close proximity to abundant natural raw material supply sources of anode grade GPC, which are among the most suitable globally. This geographical position is highly advantageous for our operations. Additionally, with the recent easing of import restrictions in India, where our operating costs are significantly lower, we are continuously evaluating our global assets. This evaluation aims to optimize production locations based on competitiveness and to reduce the overall cost of production.

Sarang

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

We have noted in the results that there is a reduction in the principal amount of around 33 million Euros on the existing Term Loan B, during the first half of the 2024. Can we expect a similar pay back amount of debt in second half of the year, as well to reduce the debt further?

Srinivasa Rao

Thanks, Sarang. Yes, we have repaid the principal amount of 43 million Euros towards our Term Loan B over the past 7 months. The Board has instructed management to reassess the cash balance required to run the business and to use the cash to optimise the interest expense. However, considering the due date of 2025 Senior Notes in April 2025 and increasing working capital need for calcination business, our immediate focus will be on these.

Sarang

Thanks, Srinivas. The next question is: Will there be any requirement of equity dilution to fund the capex for manufacturing new age materials and for accelerating debt repayment?

Srinivasa Rao

We have sufficient cash to manage our working capital requirements as well as funds that are required for the limited capex towards R&D facilities. Accordingly, we do not need to raise any equity for debt reduction.

Sarang

The next question is for more clarity on our Russian JV. Are there any plans of selling the investment in the JV and reducing the debt?

Srinivasa Rao

We have two subsidiary companies in Russia, while the Logistics company is a wholly owned subsidiary and the distillation company is a joint venture, in which RAIN owns 65%. RAIN has no plans to exit from the Joint Venture in Russia.

Sarang

The next question is whether RAIN can provide sub-segment wise revenue, volumes, and EBITDA for the last 4 quarters for CPC and CTP in the Carbon segment, as well as for Engineered Products, Chemical Intermediaries and Resins in the Advanced Materials segment?

Srinivasa Rao

As mentioned in our previous calls, we have not provided these details as it is detrimental to the business post our re-organisation of certain investments. We as management aim to maintain high level of corporate governance and transparency for our investors, we must also be cautious to protect our business interests.

Sarang

Our last question for today is: why do we have tax liability, despite consolidated net losses?

Srinivasa Rao

Our operations span various regions, resulting in differing statutory tax rates per country. On average, the group's tax rate is estimated to be between 30% and 32%. In recent quarters, our decision to be more conservative and not recognize deferred tax assets related to interest carry-forward losses and accumulated tax losses in both the US and Germany has affected our Effective Tax Rate (ETR).

Analyzing each entity separately, the ETR in Belgium, Canada, India, Poland, and Russia align with or are close to their respective statutory rates. However, due to the tax losses from depreciation and interest expenses in Germany and the US—which hold the group's total debt—the group's overall ETR is influenced, leading to a tax expense against consolidated losses. It should be highlighted that this situation pertains only to the accounting perspective where, due to conservative financial projections, the deferred tax asset is not acknowledged. From a taxation standpoint, though, these losses are indefinitely carry-forwardable and can be applied against future earnings. Consequently, this will result in no actual cash tax liability in the future when these losses are utilized.

Sarang

Thank you, Srinivas, Jagan, and Gerry.

Ladies and gentlemen, this concludes RAIN’s Management Q&A session for the second quarter of 2024.