RAIN INDUSTRIES LIMITED

RIL/SEs/2024 November 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 third quarter ended September 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 third quarter ended September 30, 2024:

Link for Audio – Management Commentary:

https://www.rain-industries.com/images/RIL-Q3-2024-Q&A.mp3

Please also 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, 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
Date: 2024.11.13 19:14:14 +05'30'

S. Venkat Ramana Reddy
Company Secretary

Sarang

Good day ladies and gentlemen.

Welcome to the RAIN Industries Limited Q&A session for the Third 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 November 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. With the trend of blast furnace capacity reduction set to continue in Europe and North America, has the spread between coal tar and coal tar pitch seen a structural reduction?

Gerard Sweeney

Thanks for the question Sarang. Currently, the reductions in our CTP margins are the result of reductions in Coal Tar availability based on curtailments related to the structural weakness of the global steel industry. As blast furnace usage decreases in certain regions, there will be less demand for metallurgical coke to run those blast furnaces. Since coal tar is a by-product of metallurgical coke production, there would therefore be less coal tar produced.

However, as blast furnace capacity is declining, there has been an increase in the installed capacity of electric-arc furnace steel production. The electrodes needed to produce steel in an electric-arc furnace are made using coal tar pitch (or, CTP) in varying quantities.

This, however, is very much point in time, and not a reflection of the spread between Coal Tar and Coal Tar Pitch being permanently reduced in any meaningful way.

In the future, the continued reduction in Coal Tar availability due to structural blast furnace curtailments, should actually bolster unit margins. While raw material availability will indeed fall, making it harder to source;

Margins in our Carbon Distillation segment should easily keep pace with the prices. We also have an advantage that we can use alternative feedstocks for our distillation as well, which will help margins as well.

Sarang:

Thanks, Gerry. The next question is… How confident are we in our ability in restoring margins to historical levels?

Gerard Sweeney

We are confident in our ability to restore margins for our CTP products going forward. The sudden announcement of European production cuts caught the market by surprise. As such, Coal Tar price firmed while CTP prices continued to fall. Some of the pitch price corrections can also be attributed to the lower energy prices in Europe in the past year. As a result, margins have been trending back towards historic (pre-energy crisis) levels!

Sarang:

What is the maximum percentage of alternate raw materials that we can use in this segment?

Gerard Sweeney

Rain has been at the forefront of using alternative raw materials in its distillation business. While the processing technology is proprietary, we can say that our R&D teams and our plant operations teams have made major strides over the years in using alternative raw materials. We have seen the downward trend in coal tar production a long while ago and we have been preparing for it, although it has accelerated in recent years more rapidly than most market players had foreseen. Having options to use different raw materials will enable us to protect our margins compared to having to use just one raw material and therefore we remain confident that our margins in the distillation business will see a return to normal levels as the supply and demand of our distillation raw materials basket and our finished products reset themselves after the recent down period.

Sarang:

What is our short- and medium-term outlook for the distillation business, considering the prevailing challenges in Europe?

Gerard Sweeney

There is no doubt the Tar Distillation industry is facing headwinds from both a raw material supply and environmental perspective. We have known and strategically planned for it for the last 5-plus years. The above mentioned alternate raw material supplies, together with the economies of scale we achieve with the size of our facilities, and our proximity to marine transportation to reach all raw material and finished products markets, leaves us very confident in our ability to not only survive, but thrive well in the future as the essence of serving a cleaner and greener economy remains intact

Sarang

Thanks, Gerry. What is the volume increase planned for the CPC, CTP and the advanced materials segment for 2025? How do we plan to increase volumes of CTP considering the raw material shortages?

Gerard Sweeney

We do not provide specific forward-looking numbers on earnings or sales. We are currently in the budgeting process and are targeting volume increases in sales based on the "liberation" I referred to in the prior commentary with regard to Calcination business. On the CTP side, we expect to see a market recovery in graphite and specialty pitch supporting growth for the segment.

Sarang

Thanks, Gerry. The next question is on pricing: though we are seeing aluminium prices doing better, the same is not reflected on the CPC or CTP prices as we are still seeing more pressure on prices and also on our margins. What are the drivers for the same and when we can see the increase in selling prices and also our margins?

Gerard Sweeney

The aluminium sector has been resilient from a pricing perspective and the reason that the price has stayed up on the LME and actually rallied from 2,200 back to 2,500, 2,600 is because in the West they cut production. The aluminium majors cut production, and that reduction has allowed the price to stay buoyant. That is not historically what they have done.

However, the reductions in aluminum production in North America and Europe, in turn, decreased demand for our products. As such, what you are seeing is that effect in the CPC and CTP industries, the reduction in demand has reduced our sales volumes. That also put pressure on our prices. They have gone down. As we have tried to match them with raw materials, we have run into difficulty in pushing the raw material prices down enough.

We have worked hard in the calcination business during the first half of the year to get GPC back in line with CPC prices and restore our margins. However, whether distillation or calcination, we still have an issue with having enough sales volume to absorb all of our fixed costs. So, we have an under absorption in re-establishing our margins.

This will all shake itself out from both a volume and margin perspective. At this point in time what's affecting us, is affecting both sides of the carbon industry overall.

Sarang

Thanks Gerry, the next question in continuation is, on this different kind of trends in the volume, is it because volumes of aluminium in China are going up and then volumes of aluminium outside China are going down?

Gerard Sweeney

Aluminum demand has decreased. There is no doubt we have been in an industrial recession since first half 2023. While forecasts for lower interest rates and stimulated major economies around the world have created more optimism for 2025 and beyond, but we have not seen real progress in this direction yet. Our focus for 2025 will be to increase our market share. We cannot wait for the markets to come to us and must gain back volume based on cost alone.

Sarang

Moving on to the next question, what is the outlook for the Advanced Materials segment? Besides the ramp up in HHCR, what steps are we taking to increase profitability in the advanced material segment?

Gerard Sweeney

Our Advanced Materials segment has done well this year so far. Volumes and margins have been relatively strong given the interruptions we have seen in traditional shipping routes. This has helped volumes and margins greatly, and we are hopeful our ability to supply local European markets with good quality products will help going forward.

We are making investments in research and development with the announcement of our new Energy materials technology center and demonstration facility in Hamilton, Canada to develop our battery anode segment. This investment is intended to grow the Advanced Materials business from a product offering and volume perspective in the future.

Sarang

Thank you, Gerry. We now have a few questions for Jagan. The first question is relating to the India CPC business. With the favourable order from Commission for Air Quality Management (or CAQM) issued under directives from the Honorable Supreme Court of India for import of GPC as well as CPC, can we utilise our CPC capacities at optimum levels both in India and the U.S.?

Jagan Nellore

Thank you, Sarang. Reflecting on the management commentary provided previously, India's Regulatory Authorities have granted permission to import both Green Petroleum Coke (or GPC) and Calcined Petroleum Coke (or CPC) for our Special Economic Zone (or SEZ) plant. This decision aligns with the mandate issued by the Honorable Commission for Air Quality Management (or CAQM). This approval will facilitate ramping up the SEZ unit's production up to its capacity by the 1st Quarter of Calendar Year 2025. Concurrently, we are diligently pursuing operational strategies to achieve optimum capacity and exploring commercial avenues to boost our global sales volumes.

Sarang

The next question is that the management commentary talks about our efforts to manufacture in locations that maximise profitability. Can you expand on this? Are we planning to set up new manufacturing facilities and if so, what is the capex planned for the same?

Jagan Nellore

At this stage, we are not announcing any new manufacturing facilities or associated major capex. That being said, our locations are already very well-situated and logistically equipped to serve both local and global markets.

In the calcination business, we have recently been “liberated” by the import restrictions relief we achieved in India. As such, we can now focus our global calcination system on locations where we can maximize profitability, and not be limited by raw material import restrictions.

Whether in India or the U.S., our comments refer to producing product at the lowest cost locations, considering raw materials and production costs, and ultimately curtailing production at higher cost locations, if need be. This is the true benefit of being a global calcination company, and we can now leverage that.

Sarang

Can you share any progress on the new products in the pipeline in the energy storage segment? With the bulk of our cash flows going into paying interest and debt, is there a worry that we may not be able to provide the required time and resources to grow the energy storage business?

Jagan Nellore

We as management believe that the recent announcements of our new demonstration plant for Energy Storage Materials and Battery Anode Materials in Canada, along with joint development agreements are the initiatives that position RAIN as a significant player in the burgeoning EV and other battery markets. Already an established premium supplier to the

Chinese battery market, we bring years of experience in serving major manufacturers. The demonstration plant will solidify RAIN's reputation for excellence in battery technology, allowing us to showcase our products' current relevance while exploring new supply chain opportunities.

These agreements will help us to develop and commercialize Advanced Natural Graphite based Battery Anode Materials with reduced electrode swelling, extended cycle life and an improved charging speed of Li-On Battery Cells. This will also help further to expand and fine-tune RAIN's Portfolio of LIONCOAT (R) Battery-grade Carbon Pre-cursor Materials and Coating Technologies. The Joint Development would create an integrated mine-to-battery Graphite and GPC-to-battery Solution for critical mineral supply chains in the Western World.

Sarang

Thanks Jagan. Moving on to the next question, what is the overall capex planned for 2025. Are we planning to spend any capex for the energy storage segment?

Jagan Nellore

From a CAPEX perspective we expect another year of reduced spending. The teams are heavily focused on improving the bottom-line results of the Company and we will therefore only be spending on required CAPEX. The energy storage facility was a small investment made in 2024 itself with no major spend projected for 2025.

Sarang.

Our next question is if there is any update on the turbine failure that happened during first quarter of 2024. When can we expect the plant to be back fully?

Jagan Nellore

The turbine failure during Q1, necessitated extensive repairs. Our dedicated operations team successfully worked to restore the turbine back to full operation. As expected, the turbine was back in operation during in November 2024.

Sarang

Thanks, Jagan. The next question is with regard to Cement business. When we see the results from Cement segment over the past few quarters, its only in declining trend. When can we expect the cement business back to normal.

Jagan Nellore

We agree that Cement business is not performing well in the recent past but there are multiple reasons for the same such as increase in the operating costs over the past two years, General elections across India during mid of the year has slowed down the construction work across India, extended monsoon season and sand scarcity resulting from regulatory changes further contributed to lower cement demand in certain markets.

However, with the initiatives taken by us like captive generation of renewable energy through waste-heat recovery and solar power which generates nearly 40-45% of our internal requirements with low costs and focusing on the key markets to improve the logistics costs help us to improve margins.

With the Government of India and Southern State Governments, particularly Andhra Pradesh, focusing on infrastructure projects and housing for all, we anticipate a significant increase in cement demand over the next few years.

Sarang

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

Considering the potential increase in the working capital requirement, what is the debt reduction plan for 2025?

Srinivasa Rao

Thanks Sarang. We anticipate that a significant portion of the increased working capital in calendar year 2025 will be due to running our Indian CPC plants at optimal capacity. The incremental working capital so far has been balanced out by the release of working capital from our North American and European operations.

From a debt reduction standpoint, we plan to pay off the $50 million of 2025 notes due on April 1, 2025. Following this, we will reassess the best allocation of our capital resources.

Sarang

Thanks, Srinivas. The next question is continuation to earlier one: While there may be several reasons, after so many years, we are still at a gross debt of more than $1 billion and net debt of approx. $750 million; what is the plan to reduce this as soon as possible?

Srinivasa Rao

You may note that as of December 31, 2022, we had a gross debt of US$ 1,114 million and net debt of US$ 897 million (excluding lease liabilities). Post refinancing in August 2023 and during the last 18 months we have reduced the debt further and as of September 30, 2024, we stood at a gross debt of US$ 952 million and net debt of US$ 711 million. Overall, we have seen a reduction of gross debt by US$ 162 million and net debt US$ 186 million.

During the current nine months period, we have generated a cash of approx. US$ 200 million from operations which was majorly spent in payment of interest and other borrowing costs, repayment debt, and maintenance capex.

As mentioned earlier, we will be repaying further US$ 50 million in April 2025 and also explore for various options in reducing the debt further in future.

Sarang

The next question is, in the reconciliation from reported EBITDA to adjusted EBITDA there is an adjustment towards prior period expense due to some regulatory changes. Can you elaborate more on the same as to what is the nature of such expense and why impacting current year EBITDA.

Srinivasa Rao

Post third quarter closure date of September 30, 2024, The Andhra Pradesh Electricity Regulatory Commission (APERC) issued a Fuel and Power Purchase Cost Adjustment (FPPCA) Order, approving the FPPCA to recover additional charge from the consumers who consumed power during FY 2022-23. This will have an impact on Cement business which has plant in Andhra Pradesh. Management has made estimated provision of Indian Rupees 70 Million based on the consumption made in 2022-23. As the same is not pertaining to current year operations, it was considered in the adjustment reconciliation to EBITDA. Although we have made a provision in books for the same considering the Order issued, we are internally discussing about the potential to challenge the APERC Order as it not just for RAIN, but every company and industry located in the Andhra Pradesh state that have high consumption of energy will have a negative impact.

Sarang

Our last question for today's call.. despite losses getting reported over the past few quarters, we noted that there are cash outflows in the form of income taxes. Can you throw some light on this.

Srinivasa Rao

This is a good question Sarang. RAIN Industries Limited is carrying-on its business across multiple tax jurisdictions. There are certain tax jurisdictions, we are incurring losses and other tax jurisdictions, we are making profits., Further, there are certain limitations in the deductions in US and Germany that can be claimed under income tax calculations such as interest deductibility, utilization of carry forward of losses etc because of which for particular assessment year we are liable to tax to certain portion. You may also have noted the same in our ETR explanations that due to accounting restrictions we limit the creation of deferred tax assets on the interest carryforwards and tax losses. However, from tax point of view, we can claim the same for unlimited time period.

In addition, on the repatriation of profits from one jurisdiction to another will attraction withholding taxes resulting in additional tax outflows for the same profit generated. We are working diligently on these aspects and in optimizing the tax outflows across the group.

Thank you, Srinivas, Jagan, and Gerry.

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