

4th Feb, 2019



The report aims to highlight the decision related to import of GPC and CPC passed by the Supreme Court and its impact on the company.

Background

The Supreme Court had uplifted the ban on petcoke with certain caveats on 9th October, 2018. The Court granted permission to import 1.4 Million Tons of GPC annually by The Indian Calciners and 0.5 million tonnes of CPC annually by the Indian Aluminium Smelters.

After this, the calciners had to apply for import licenses for importing GPC and CPC for half- year ending March, 2019 according to the guidelines of DGFT. DGFT allowed the limit of 0.7 million tonnes for the half-year ended March,2019.

Rain Industries Ltd. filed three applications to the Supreme Court for getting approval on the following:

1. **Application:** The company made an application to the Supreme Court mentioning to allocate 705,600 Tons of GPC imports per annum in favour of the company. The company requested to allocate 352,145 tons of GPC for the half year ended March, 2019. It mentioned that it is the only calciner in the country to have Flue Gas De-sulphurisation system that reduces sulphur dioxide emissions by more than 90%

Judgement: After considering the applications of other Indian Calciners, DGFT granted approval for importing 253,339 tonnes of GPC as against the request of 352,145 tonnes of GPC. It also mentioned that that any unutilized limits surrendered by calciners will be available to other applicants who had applied initially.

Impact on Rain Industries Ltd.:

- **Impact on Revenue**

With 253,339 tonnes of GPC, the company can manufacture 190K tonnes of CPC. (1 tonne of GPC makes 0.75 tonnes of CPC). The company needs ~328,667 tonnes of GPC for half year ended March 2019 to operate at 85% capacity utilisation levels. With the current import grants of GPC, the plant would be able to operate at 70-75% capacity utilization levels. Going forward, if the Supreme Court doesn't increase the limit, it would be difficult for the company to maintain its capacity utilization levels.

- **Revaluing Inventory**

The prices of finished product i.e. CPC has fallen at a faster rate than the raw material. The CPC Price has fallen from ~\$410 to \$360/ton. The GPC Prices have also fallen but it normally takes a lag of around two quarters to be seen in the results. It is hard to predict on how long it would take to be depicted in the results. Hence, this time there would be some pressure on margins in Q4 CY2018 as the company had higher cost raw material inventory.

2. **Background:** Rain has been a major importer of CPC into India. The company has been importing CPC from its US plants and other sources too to blend the same with CPC manufactured in the Vizag Plant at its blending facility. The company sells the blended CPC to domestic and international markets both The Supreme Court mentioned in its verdict on 9th Oct, 2018 that only Aluminium Smelters can import CPC and prohibited Calciners to import CPC.

Application: The Company made a request to import CPC for its blending facility and also told the company would export the equivalent quantity. Hence, complying with the net import cap of 0.5 million tonnes of CPC.

Judgement: The Company hasn't got approval of importing CPC for the blending facility.

Impact on Rain Industries Ltd. :

With no imports of CPC for the blending facility, production in the US Calcining can also be impacted to some extent. As mentioned above, some amount of CPC is sourced from the US operations and the remaining from other sources. In the last Concall (Sept,2018) the company guided that around 100k tonnes could be affected in the second half because of no blending.

▪ **Impact on Revenue**

As on Sept, 2018, Total Revenue Contribution from Blending is ~8% which translates to around Rs. 842 crores as on Sept, 2018(9 months). In CY2017, revenue contribution was around Rs. 915 crores.

There are restarts seen in Aluminium Smelters in the United States. So, some amount of CPC sent for blending to India can be utilised in the United States itself. But, here the restarts have been slower than expectations.

3. Background: The cap of 1.4 million tonnes of import of GPC by the Supreme Court doesn't take into account the expansion plans of Calciners. The company is setting up a new CPC Plant in Andhra Pradesh in SEZ Zone which was expected to commence in Q3 CY19.

Application: The company requested to increase the import limit of 1.4 million Tons per annum for manufacturing CPC at the Company's SEZ Unit. It also requested to increase the import limit of 0.5 million tons per annum of CPC by an additional amount of 370,000 tonnes per annum for blending purposes at the Company's SEZ Unit. It also mentioned to export the equivalent amount to comply with existing import cap of 0.5 million tonnes.

Judgement: The Supreme Court rejected the request.

Impact on Rain Industries Ltd.: This is a concern which needs to be looked at for the company. The Company intends to file a Review Petition in the Court and review the SEZ Act if that can provide certain relief for Exporters in regard to import of Restricted Goods such as GPC and CPC.

We need to watch very closely on how the company sources GPC for the new facility.

Other Key Announcements:

- The company in its notification also mentioned that there will be a considerable delay in collecting the receivable from its customer in Venezuela due to various political developments. **The allowance for doubtful receivables would be ~Rs. 76 crores during Q4 CY2018.**

Conclusion

Overall, one has to remain very cautious in the medium term in this situation as there is some amount of uncertainty and negative impact on the company on account of non-allowance of import of CPC for blending, not raising the import limit for GPC and import of GPC for the new expansion. It is hard to predict on how long the company/situation takes to normalise operations. However, in the long run, the downside is limited and the valuation gives a comfort. But, one needs to closely watch the developments happening in the industry and its impact on business operations and expansion plans.