Quarterly Results and Management Commentary

2nd August, 2021

Rain Industries Limited
(Formerly Rain Commodities Limited)

Key Data	
Industry	Metal
CMP	Rs.255
Market Cap (in cr)	Rs. 8589
Outlook	Positive

Shareholding Pattern	
Promoters:	41.14%
FII:	10.61%
Mutual Funds:	0.04%
Public:	48.21%

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Rain Industries Ltd. reported results that were exactly in-line with the expectations. The company was able to maintain normalised margins despite increase in raw material cost.

Industry Update

- **Aluminium**

LME aluminium prices had risen further indicating a continued strong global demand in the near future. With increased demand and profitability, the global aluminium industry is expected to add 4.5 million metric tonne in terms of re-start and expansions from late 2020 to CY2021.

Aluminium companies and also major customers of Rain like Alcoa and Norsk Hydro also reported good set of results. Unlike, the previous cycle, this time, the raw material prices of manufacturing aluminium have been comparatively stable except carbon and energy. This makes it easier for the carbon companies to pass on the hike in CPC and CTP prices easily to the smelters as they are profitable and the carbon companies can maintain their margins.

Also, these smelters are trying to ramp up their capacity to capitalise on the current higher aluminium prices and pent up demand resulting in more demand for CPC and CTP.

- **CPC & GPC**

Increased refinery activity should improve the availability of GPC leading to moderate decrease in cost compared to H1 CY2021. The capacity utilization rate in the US stood at 92% in July,21 as compared to 84% in April, 21. While US refineries are returning to full capacity, Europe and Asia are still lagging behind.

- **CTP**

Going forward, with improved availability of coal tar, the company expects to see decline in coal tar prices.

Result Highlights

1. Carbon Segment

The company exhibited 25% EBITDA margins in this division. If the company can maintain normalised margins in the range of 20-22% is good. What is comforting is that, it's not a commodity business but a very technical driven converter business where utmost importance is given to quality.

CPC

There was a slight impact on CPC spread due to rising GPC costs in the previous quarters.

CPC witnessed strong demand from titanium di-oxide industry during the quarter driven by home construction and paints led to increased capacity utilization.

Going forward, with improved availability of GPC in the US, it is expected that the company can maintain its normalised margins.

- **Robinson facility re-started**

The company in Q4 CY2020, the company had suspended operations at Robinson facility on account of demand-supply mismatch. During the Q/A commentary, the management guided that they have re-started the facility in early Q3 CY2021 on account of higher demand and tighter shipping schedule for H2 2021.

CTP

The company did good volumes in this segment. Last quarter higher volumes were on account of delayed shipments. However, it did witness a decline in spread.

Going forward, with improved availability of coal tar because of higher steel production, it will be able to manage its raw material mix in a more cost effective manner.

2. Advanced Carbon

Engineered Products: Volumes of Carbores used in refractories and graphite continued to increase as industries prefer environment friendly products.

The demand for Petrores used in lithium ion batteries also remained strong .

Chemical Intermediates: BTX volumes remained low as the management was conservative in procuring raw materials that was partly offset by higher selling prices.

Phthalic Anhydride volumes were lower qoq and considerably higher volumes yoy due to impact of COVID on manufacturing activities.

Refined Naphthalene demand remained strong during the quarter.

3. Cement

The demand is strong especially in Andhra Pradesh, Telangana , Tamil Nadu and Karnataka. There would be some impact in terms of lower volume because of monsoons.

4. Debt repayment during H1 CY2021

US$ in Millions	Dec-20	Jun-21
7.25% USD-denominated Senior Secured Notes (due in April 2025)	550	546
Euro-denominated Senior Secured Term Loan (due in January 2025)	479	464
Senior Bank Debt	39	34
Sales Tax Deferment	7	6
Finance Lease Liability	72	66
Gross Term Debt	1147	1116
Add: Working Capital and other Debt	77	25
Less: Deferred Finance Cost	12	10
Total Debt	1212	1131
Net Debt	932	918

5. Going forward, factors that will drive the results:

- Volumes in Carbon and Advanced Carbon Segment
- Improved spreads in carbon division:
  With decrease in price and improved availability of raw materials, this segment is expected to see improved spread/tonne. Also, the company has an advantage of better raw material sourcing, global plant location and decades of experience in this industry.
- Improved margins in advanced carbon division
- This segment's performance has remained subdued since last two quarters. Some products have performed very well offset by the weak performance of the others. This segment has a scope of improved margins once the manufacturing activities pick up.
- HHCR plant is expected to operate at 60% capacity utilisation this year and 75% from next year.

6. Financials

(in crores)	Jun-21	Mar-21	Jun-20
Sales	3643.40	3007.7	2360.70
Expenses	2995.44	2424.4	1994.00
EBITDA	647.96	583.3	366.70
EBITDA Margin	18%	19%	16%
Dep	201.2	198.01	188
Interest	122	119.5	124.2
Other Income	37.1	42.6	26.5
Loss (+ Gain) on foreign currency	-2.43	-5.9	14.9
Exceptional Items			
Profit before Tax	364.29	314.29	65.90
Tax	98.3	83	31.49
Net Profit	265.993	231.29	34.41
EPS	7.92	6.88	1.02

Overall, we maintain positive outlook on the company