Rain Industries Ltd

CY13 EARNINGS CONFERENCE CALL

MANAGEMENT:

MR. Jagan Mohan Reddy – Managing Director, Rain Industries Ltd

MR. Srinivas Rao – Chief Financial Officer, Rain Industries Ltd

MR. Gerry Sweeney – President and CEO, Rain CII Carbon LLC

MR. Henri Steinmetz – President and CEO, Rutgers Group

ANALYST:

MR. Niraj Agarwalla – Tata Securities Ltd

Moderator Ladies and gentlemen good day and welcome to the CY13 Rain Industries Earnings Conference Call hosted by Tata Securities Limited. As a reminder all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Niraj Aggarwala. Thank you and over to you sir.

Niraj Aggarwala Yes good evening everyone. I welcome all the participants to the fourth quarter 2013 conference call of Rain Industries Limited. We have with us Mr. Jagan Mohan Reddy – Managing Director of Rain Industries Limited. Mr. Srinivas Rao – Chief Financial Officer of Rain Industries Limited, Mr. Gerard Sweeney – President and CEO of Rain CII Carbon LLC and Mr. Henri Steinmetz – President and CEO of Rutgers Group.

We would commence the call with opening remarks from Mr. Jagan Reddy providing an update on recent developments at Rain Group. He will then be followed by Mr. Srinivas Rao providing you the highlights of the financial performance during Q4 2013. Mr. Sweeney will provide an outlook for the CPC business and Mr. Henri will provide outlook for other carbon products and chemical businesses. This will be followed by question and answer session where the management will answer the questions from the participants.

Before we begin, I would like to mention that some of the statements made in today's discussion maybe forward-looking in nature that could be affected by certain risk and uncertainties. The company's actual results could differ materially from such forward-looking statements. I now request Mr. Jagan Reddy to provide an update on the key development in Rain Group.

Jagan Mohan Reddy Thank you Niraj. Good evening everyone and welcome to our 2013 fourth quarter conference call. I would like to start the call with a brief update on key strategic developments of the group during fourth quarter 2013.

Despite a number of macroeconomic challenges such as weak primary aluminum metal prices that are at five year lows, mounting metal inventory, adverse currency movement, impairment of Moundsville CPC facility, excess cement capacity, and sharp increase in conversion cost in the cement business etc, I am happy to say that we have performed reasonably well in 2013 with a top line of Rs.115 billion operating profit of Rs.15 billion and net profit of Rs.3.8 billion. Reported net income of Rs.3.8 billion during the current year is partly affected by market condition and further aggravated by impairment loss of Rs.1.3 billion, I will separately discuss the fact is causing the impairment and the impact of the Moundsville closure on the overall performance in future.

Further during the current year with a depreciation of rupee against US dollar and euro appreciation against basket of other currencies we have incurred a consolidated foreign exchange loss of Rs.505 million compared to foreign exchange gain of Rs.26 million during last year. The company has been indemnified in relation to certain environmental expenditure as per the terms of the prior acquisition made by the company. Based on completion of due process as per the terms of the agreement the company has recognized an amount of Rs.1007 million recovered full up to the end of calendar year 2013 as other operating income. These are the amounts that have already been spent by the company. Any future amount recoverable under the said indemnity will be recognized on completion of due process under the agreement net of expenses if any.

In regards to seasonality of the business as indicated in my last call due to wet and/or cold weather conditions general destocking and slower production of some of our carbon and chemical products has witnessed lower growth. Chemical product volumes during the quarter have fallen by about 12% to 67,000 tons. My colleague, Henri, will provide you with more color on how seasonality impacts our business and measures being taken by the company to minimize the impact on overall operating performance.

On the closure of our Moundsville calcining facility with effect from January 31, 2014, it was brought on by the impact of new regulations by the Environmental Protection Agency of United States requiring considerable additional investments which is economically unviable in the current market condition. However this closure is not expected to have any significant impact on the overall sales volume of the company. The company has carried out impairment analysis based on the fair valuation report of the independent valuer and recognize an impairment loss of Rs.1.3 billion during the quarter ended December 31, 2013.

Lastly to give you an update on strategic developments I am pleased to inform you that our Russian JV, 300,000 ton coal tar distillation plant and the Phthalic Anhydride expansion plant are going in accordance with the planned schedule, we expect to complete the PA expansion project in the fourth quarter of this year and the Russian JV project early next year.

I would now request Srinivas to provide highlights of the financial performance during fourth quarter 2013. Thank you.

Srinivas Rao

Thank you sir and a warm welcome to all the participants. As informed earlier in view of consolidation of the financial results of Rutgers with effect from January 4th, 2013, performance of the company in the current year or current quarter is not comparable to the performance during the corresponding previous period. Hence, we listed on our discussions for the comparing of the current quarter performance with third quarter performance.

To highlight some of the key performance indicator on a consolidated basis I will provide you some updates:

Consolidated net revenues is Rs.28.8 billion during the current quarter, a decrease of about 3% compared to Rs.29.76 billion during Q3 of 2013. Carbon products sales volume during the current quarter is 782,000 tons an increase of 8% compared to 726,000 tons in Q3 of 2013, mainly driven by 4% increase in the CPC space higher petcoke trading volume partly offset by fall in other carbon products sales due to general seasonality. Chemical sales volume during the current quarter is 67,000 tons, a decrease of 12% compared to third quarter of 2013, mainly driven by fall in chemical trading division volume and raising sales due to general seasonality. Cement sales volume during the current quarter has remained almost flat at 470,000 tons compared to 472,000 in third quarter of 2013. Consolidated operating profit for the current quarter is 3.621 billion a decrease of 3% compared to 3.739 billion achieved during third quarter of 2013.

Consolidated operating profit margin remained flat at 13% in fourth quarter of 2013 as compared to third quarter of 2013.

Foreign exchange loss during the current quarter is 135 million compared to 194 million in third quarter of 2013. Marginal appreciation in rupee during the current quarter was more than offset by strengthening euro compared to basket of currencies where Rain operates.

Finance cost during the current quarter is almost flat at 1.551 billion compared to Rs.1.559 billion during third quarter of 2013.

The effective tax rate during the current quarter increased mainly due to recognition of minimum alternate tax credit of Rs.78 million tax credits pertaining to previous years of Rs.108 million and due to tax impact on other one off items discussed by Mr. Jagan. However, our effective tax rate is expected to be in mid 30s going forward. Consolidated reported net profit during the current quarter is 472 million a decrease of about 45% compared to consolidated reported net profit of Rs.866 million during the third quarter of 2013.

However, the adjusted profits, adjusted for the Moundsville impairment loss of 835 million net of tax for the current quarter is increased to 1.307 billion compare to 866 million during the third quarter of 2013. The company achieved a consolidated EPS of Rs.1.41 per share during the quarter a decrease of 45% compared to consolidated EPS of Rs.2.58 during the third quarter of 2013.

As of December 31st, 2013 the company has a consolidated debt of $1.339 billion US including working capital rent of $94 million US and cash and bank balance of $136 million US. The net debt as at the same date is $1.203 billion US. With an existing cash balance of $136 million US an undrawn revolver facilities of $197 million US Rain Group is comfortably placed to meet the debt repayment obligations and the CAPEX projects in the pipeline. As you all aware the major debt repayment obligation should start only at the end of calendar year 2018.

Total capital expenditure spent during the current year is about USD62 million, the major driver for the high capital outflow is for various ongoing expansion projects, the spillover CAPEX pertaining to Lake Charles waste heat recovery project in US, regular maintenance CAPEX and environmental related expenditures. I am happy to share despite the high capital expenditure an increase in working capital outflow the free cash flow for the year stood at positive to at about $40 million US level. I would like to hand over the call to Mr. Gerry Sweeney to provide outlook for carbon businesses, over to you Gerry.

Gerry Sweeney Thank you Srinivas, good morning everyone. There is always it is my pleasure to address you once again this evening. From the aluminum perspective the market continues to be burden by oversupply which reportedly 7 to 10 million tons of aluminum in storage worldwide in addition to the 5.5 million tons in the LME warehouses. Forecast expects the market to approach balance by mid 2015 after six years of surplus. However, much of them that metal inventory can used to be tied up in financing deals and as a result physical availability of the metal remains relatively tight. During early February for a brief period the LME three months metal price reached $1700 per ton psychological support level and then slowly recovered to the current level of $1740 per ton. This is sent to be below many smelters costs although the LME price looks to be weaker the regional premiums especially mid west premium in the US and shutdown costs are largely supporting continued metal production. However, we certainly saw many curtailments over the last year which they shown a loss of patience by the industry to wait out this for prolong downturn. A number of companies have been successful in lowering their operating costs, primarily through renegotiated power deals, these costs cutting measures coupled with increasing production in China have only exacerbated the supply situation. However, in conjunction with cost cutting producers continue to review marginal assets with high cost structure. Alcoa and BHP recently announced the permanent closures of Massena East and Bayside respectively. To date total announced curtailments are closed to 2.5 million tons. Further cuts are possible and pretty much welcome by the industry as this will help to limit the market surplus. Overall aluminum production has grown by 4.5% and consumption grown by 5.3% in 2013. Further latest industry estimates by projecting growth for metal demand for 2014 stands at 6%, given the current market conditions this would be a good boost for the entire global aluminum industry.

From a market outlook perspective for a prolong negotiations are now the norm in the industry and we do not expect it to change until the market picks up. Owning to continued low metal prices negotiations are being prolonged even for the first half of 2014, these are the symptoms of the current global market situation on pricing and inventories. We have seen a non-typical scenario in a GPC cost structure where we are not able to continue to push down the heights of GPC components as we have in the past to meet price reduction. This is due to the fact that the alternative end use markets produced cokes in kind of steel, cement and power generation industries remain relatively strong and we must maintain the premium over these prices in order to attract these GPC volumes into the calcining industry. On average CPC prices during Q4 2013 fell by about $6 per ton compared to Q3 2013.

Overall, in terms of sales volume we are marginally lower than the 1.7 million tons volume estimation shared in the last call, while the negotiations for 2014 are still not concluded based on preliminary estimates we expect the volume range similar to 2013 level. We have set a strategy to stem further CPC market price erosion and are only offering reductions in prices that are matched with quality relief from customers on productions and product specification. Operationally, as indicated by Jagan we closed our Moundsville facility effective January 2014, the dark facility at Moundsville will be operational until the end of the current year and all other calcining facilities continue to operate at or near optimal rates.

Overall, we are comfortable with the global performance of the calcining business during the year in the face of very weak conditions in the aluminum sector. Except 2014 being fully challenging with continued price pressure but do not expect much downside from the current level with the projected correction and surplus situation we expect the recovery in the metal pricing from 2015 onwards. We remained focused on protecting our margin effectively managing our balance sheet enrolling our business over the long term. Now, I would like to hand the call over to my colleague, Mr. Henri Steinmetz, from Rutgers, Henri.

Henri Steinmetz Thank you Gerry. It gives me immense pleasure to address you all once again. As indicated by Jagan Q4 has faced some seasonality in regards of volumes nevertheless we were able to increase our operational results in the carbon business as well in the chemical business due to higher margins per ton and lower environmental expenses than budgeted due to expected reimbursements of certain expenses. As expected the sales volume for the chemical business was down by 12% driven by seasonal lower demand in construction industry, the color erstwhile industry and the destocking at some of our customers at the end of the year. To adjust the production volume, reduced inventory and take cost out the temporary shutdown some production lines in the chemicals business which produced production volume by 15% in Q4 2013 compared to Q3 2013. The sales volume for the chemical products were down by 7% driven by lower pitch and oil sales as a result of regular maintenance shutdown during Q4 2014. Despite the challenging market conditions Rain was able to realize slightly higher prices per ton and the chemical business thanks to the favorable mix changes and the strong development of the benzene quotation.

From the sourcing perspective the coal tar availabilities continues to be tight in Europe. While we are observing continuous high demand for naphthalene combined with favorable prices for fuel and the orthoxylene price quotations has seen under the pressure in Q4 2013.

In China supported by higher reservation from other tar derivatives the pitch prices continue to be lower than the coal tar or raw material prices. However, we saw an upward trend for pitch quotations at the end of Q4. In Russia we are commissioning the phase one of our project and has start demolition of parts of the existing construction for the implementation of Phase-2 of the project. The detailed engineering has been finalized, key items have been ordered and the bidding process of the general constructor is in the final stage. We expect to commission Phase-2 by early 2015. Our Phthalic Anhydride expansion project at the Zelzate production site is Belgium is progressing in budget and on time so that we are confident to start the production by Q4 of this year. To improve the competitiveness we have initiated several cost optimizing measures at all our facilities including measure to reduce your energy cost with a finalization of the two major CAPEX project together with the cost cutting initiatives, we are confident to be well placed for 2015.

Thank you. I would like to open the meeting up for the question and answer session, over to you operator.

Moderator Thank you very much sir. We will now begin the question and answer session. Thank you. First question from the line of Achal Lohade from JM Financial, please go ahead.

Achal Lohade If I look at the costs the power and fuel and the other expenditures seems to have gone up by 50 crores each on Q-o-Q basis, could you please clarify as to what could be the reason given we have seen a decline in the volumes?

Jagan Mohan Reddy See, the power cost in the cement business have increased mainly because of the reduced operations, because of the lack of demand and there are surplus inventory of clinkers the plant has not operated for many days because it is operated for a very few days the average has increased because of that there is an increase in the cost of power and fuel for the cement and other expenses is mainly because of shutdown in Europe and higher maintenance cost of closed to $7 million in US CPC facility. So that is the reason the average has increased.

Achal Lohade Sorry, I didn't get. So, one you are saying these $7 million higher repairs and maintenance expenditure for US facilities and for power and fuel you said because of the cement business is that correct sir?

Srinivas Rao Yes you are right compared to Q3 the plant has operated for higher number of days and that gets reflected in the closing inventory. In Q3 the cement plant was not operated for the substantial part of the time.

Achal Lohade Understood. I also see 75 crores of tax credits part of that is already explained through MAT credit and their prior period credit. Can you please elaborate a little bit on the balance Rs. 60 crores so what is it pertaining to, just trying to understand the core profit for the quarter excluding the one-offs which includes the indemnifying the income we have recognized in the impairment loss?

Srinivasa Rao Achal actually as you know we have implemented the waste heat recovery project in US in the calendar year 2012, the project has been completed by December 2012 but the returns the US tax returns were filed only around September 2013 and October 2013 so at the time of filing the tax returns we have been quantified certain tax credit which are eligible in respect of the waste heat recovery project and then we are finalizing the CY2013 financial statement we recognized those tax benefits. They are all pertaining to waste heat recovery project in our US company.

Achal Lohade What would be the quantum?

Srinivasa Rao It's about Rs.108 million.

Achal Lohade No the balance Rs.60 crores actually, this was explained, these 70 million and 108 million, so about Rs.17 crores was explained I was just checking on the balance Rs.60 crores.

Jagan Mohan Reddy Yes, whatever the Moundsville impairment last we have that is also subject to the tax credit. See, basically the US permits see whatever taxes if you have paid in two years and if you suffer a loss in this one year then actually we can claim back the taxes what we had paid they permit taxes to be paid over a period of two to three years means then they actually even go backwards and actually they reimburse those costs.

Achal Lohade Understood. Can you please elaborate a little bit on the recognition of Rs.100 crores of income part of other operating income what is it do you see this kind of what was the expenditure and how do you see it going forward, how does one build in that in CY14?

Jagan Mohan Reddy See basically we have a seller indemnity for certain environmental expenditures because when there was an acquisition happening there were some uncertainty on them so there was seller indemnity and based on that whatever we had under the indemnity whatever we had spent towards the environmental expenditures we actually were able to we get it as a reimbursement and it is treated as a capital expenditure, capital receipt so it will not be subject to taxes but we do get that and going forward if we do spend anything we may a reimbursement if we do not have to spend anything then we will not get reimbursement so there is no sure rate, basically reimbursement so whatever is spend we may get it back.

Achal Lohade And how much was spent roughly or broadly in CY13 on this because I believe it could be part of?

Jagan Mohan Reddy The spent was the amount whatever was indicated there about 1007 million so basically that we will get back as, it's basically based on a dollar-to-dollar indemnity space

Achal Lohade So, you are saying that whatever was spend in CY13 we have recognized under the clauses the agreement specifically.

Jagan Mohan Reddy Yes, because that is stable by sellers. The total expenditure incurred during 2013 as a whole it's not in Q4 alone.

Achal Lohade Right, understood. And just last question you said $40 million free cash flow for CY13 do you have similar calculation for 4Q 2013?

Srinivasa Rao I didn't get you, you are looking for?

Achal Lohade Free cash flow, you had talked about free cash flow of $40 million in CY13 as a full year that you have similar calculation for the fourth quarter specifically?

Srinivasa Rao You are referring to fourth quarter?

Achal Lohade Fourth quarter.

Jagan Mohan Reddy We are actually even in fourth quarter.

Achal Lohade About 10 million odd?

Jagan Mohan Reddy Yes.

Achal Lohade Great thanks so much I will come back in the queue.

Moderator Thank you. Next question from the line of Kunal Banerjee from Brigade Capital Management, please go ahead.

Kunal Banerjee Just a couple of questions, I just want to revisit that tax question that was asked. Still not very clear what the underlying tax is I mean I know you said there is 108 and 70 odd million and then you took an impairment at Moundsville and the tax effect of that has also in that number can you just tell me ex those one offs what's your tax rate and tax expense would have been in the fourth quarter?

Jagan Mohan Reddy Actually, Kunal whatever losses we have incurred in US we are eligible for the tax credit for those losses incurred in US and we had indemnification claims whatever we have received, we are not subject to tax, they are treated as capital receipt in the tax returns.

Kunal Banerjee Okay, so let me ask it another way is the effective underlying tax rate or mid 30s like you indicated going forward, I am just trying to get a sense for ex all those items what is your tax expense?

Jagan Mohan Reddy Just going forward our effective tax rate will be in mid 30.

Gerry Sweeney Yes, actually important thing to remember is that from the US tax perspective as Jagan had indicated when we have positive net income then we are exposed at that percentage is that Srinivas is expressing. However we have a credit for 2013 because the debt resides in the US and we show in the US essentially a net loss from a tax perspective and on that basis we are actually getting a credit back in our taxes so I think that's confusing folks a bit.

Kunal Banerjee Okay maybe I will follow up with you later. The other question for you Gerry is I think you talked about the waste heart recovery unit generating about 12 to 15 million of EBITDA the one that just came up in Louisiana last year I believe around December of last year 12 to 15 million that was I think gas price or the natural gas price of $4 or thereabouts so I am just wondering what the sensitivity to gas prices is of that EBITDA stream given that at least through the winter ones we have seen the natural gas prices north of that level.

Gerry Sweeney We are compensated on that related to, we get premium revenues as a renewable resource, we are not terribly influenced by the natural gas price per se so there is not a huge impact by the base on that fluctuation so that profitability is still available to us at the same assumption level that we had before.

Kunal Banerjee And then lastly I think you mentioned 7 million of higher maintenance expenses in the US and I am just wondering just one off where we had a plan turnaround or how should we are thinking about that going into the first quarter of 2014?

Srinivas Rao Actually major maintenance is a deferred revenue expenditure it is treated as a deferred revenue expenditure in the US GAAP while in Indian GAAP such type of amortization is not allowed as and when it is incurred it is charged up to revenue as a regular maintenance expenditure whereas the turnarounds are treated differently in US GAAP IFRS for us they are allowed to be amortize over the life of next turnaround and the scheduling could be different we expect that about $3 to $5 million will be spending in each quarter.

Kunal Banerjee Okay so instead of those 7 you would be on the normal run rate that would be 3 to 5 per quarter as oppose to the 7?

Srinivas Rao This is only for US operation, in India we don't spend so much the maintenance actually, it's about year as a whole it's something like $1 million US.

Moderator Thank you. Next question from the line of Sanjay Jain from Motilal Oswal, please go ahead.

Sanjay Jain Yes, thanks for taking my question. My question is pertaining to the segmental profit that has been reported in the carbon product segment. I mean this shows quite a steep decline on a Q-o-Q basis one reason is that the impairment that we have taken of about 130 crores if I adjust that and at the same time there is 100 crore of other operating income which is additionally shown in the revenue so even if I am making both these adjustments so after that I get this profit for the carbon segment about 115 crores which is nearly 50% decline from the third quarter so which essentially means there is a sharp decline in the margins but I mean at the same time in your volumes discussions have mentioned there is some increase in the traded volume which could have diluted the margins but 50% decline in the margin essentially speaks quite a lot about the margin compression in the core CPC business, so could you give some more color on this or please correct if my analysis is not correct or it's flawed?

Srinivas Rao Sanjay this is Srinivas. While the entire Moundsville largely pertaining to the carbon business the indemnification recognized 100% does pertain to the carbon business this is partly attributable to carbon business and partly attributable to the chemical business the speed will be something like 70% - 80% is for carbon and for 20% - 30% is to chemicals. These are the reasons we are working taking these assumptions and – decline in the margins because of the general market conditions.

Sanjay Jain Yes, but still like even if I take 70% still like I still get nearly 40% decline in the margin so I mean could you give us some sense on what has been the margin compression in the core CPC business?

Srinivas Rao Mainly it's because being in the fourth quarter there has been a reduction in the sales volumes and basically what has happened was there are certain costs say for example we had made a shipment from Europe to Canada and we actually had the vessel got stuck in the snow and because of that we had to pull back the shipment and because of that we actually had to take a write off about €1.4 million on that during the fourth quarter. Similarly, there has been an increase in certain raw material cost and so because of various factor we think the fourth quarter is not going to be representative going forward but there has been a margin reduction in the fourth quarter.

Sanjay Jain Okay I missed bit of a discussion that Srinivas was doing. Can you just I mean reiterate how, I mean GPC cost have moved from third quarter to fourth quarter and if there is any outlook for the first quarter now or I can take it offline later on?

Srinivas Rao Sanjay you are referring to Mr. Gerry Sweeney or me. You see basically the Green coke cost have increased by about $13 per ton on an average while CPC price in the fourth quarter have actually decreased by about $6.

Moderator Thank you. Next question from the line of Niraj Agarwalla from Tata Securities, please go ahead.

Niraj Aggarwal My question is to Gerry. Gerry you mentioned that in terms of aluminum consumption demand we are looking at global demand of somewhere around 6% in CY14, whereas for our CPC volume outlook you said that we are looking at flattish volume same as that of CY13 so where is the disconnect in this?

Gerry Sweeney Yes, there is an increase in demand and then the increase in consumption projected for 2014 but remember we are still sitting on significant inventories so just because there is an increase in demand related to it the overall there is not necessarily and an increase therefore in consumption is not necessarily mean it will increase our sales overall, also the Chinese are producing more than half of the aluminum in the world than they are currently and we don't supply any of that in China with the exception of our plans in China which is only 20,000 tons so from that perspective an increase in production and increase in demand for aluminum don't necessarily translate currently into more sales for us, however it is good overall for the industry because more essentially using up the inventories is something that will provide longer term stability for the industry overall so really that's why our projections for 2014 versus 2013 are relatively flat and for 2015 we are hopeful that the industry will be in a better position and that sales will pick up.

Niraj Aggarwal So, Gerry situation of flat volumes do we see in terms of our pricing outlook being a little softer than what it was in CY13?

Gerry Sweeney From sales price perspective in the current market it's realistic to look and say we will continue to have price pressure on our finished product prices and what we have done related to that is proactively go out and say we do not want to reduce the price any further, we will only reduce the price consistent with quality concessions meaning we understand that aluminum smelters are under pressure to reduce their costs in order to maintain their profitability but we can't continue to just give price concessions which means ultimately margin reductions for us if we can't recover it on the GPC cost, one way we can recover it on the GPC cost is by more relaxations to CPC specification from the aluminum smelters what we have said is we are not reducing the price for the same specification but if you have take an alternative specification we can provide price discounts on that and we have had some success with our pricing strategy with smelters in the negotiations so far.

Niraj Aggarwal So, if I understand it correctly for 2014 we are talking about flat to slightly lower CPC revenues and with GPC prices still being on the strong side we might still see some more compression in the margin for CY14 at least, for 2015?

Gerry Sweeney We are looking at flat right now, we are probably flat on volume on margin what we are doing is we are fighting to maintain price and cost we could see some reduction in overall revenue but we are trying to match that it's not that we have no room to reduce our GPC costs, we are pushing on that as well to hopefully match any price reductions with costs reduction related to it.

Niraj Aggarwal Okay so in this scenario how does the coal tar pitch profitability look like in CY14 this question might be more to Henri?

Gerry Sweeney Yes, Henri do you want to take that?

Henri Steinmetz Yes, well if we look in coal tar pitch at the moment we will stabilize our margin as we go forward we see a reduction in fixed price but we see now also success that we see in Europe that's coming down of the coal tar prices so in that respect we see a neutral effect in our margins that we can still reduce to set the prices of our coal tar and also I think we get the better mix in the supply so that we see a stable margin for the pitch margins going forward.

Niraj Aggarwal And Henri what will your outlook for the pitch volumes in 2014?

Henri Steinmetz We see at the moment for us flat it's slightly up in the pitch volumes and we look at to ourselves at the moment, we are gaining some shares building up markets in Russia with tar distillation coming up so we are flat to stable market in North America, Europe and we are building up new shares in Russia.

Niraj Aggarwal And my final question is to Mr. Srinivas. What would be our CAPEX number for 2014 and what would be the debt repayments in 2014 and 2015?

Srinivas Rao We have a CAPEX of about $60 million in CY2014 and repayments are around $20 million $25 million.

Niraj Aggarwal $20 million in 2014 and $25 in 2015?

Srinivas Rao No, I am talking about repayment on loans is around $25 million in 2014.

Niraj Aggarwal Okay and 2015?

Srinivas Rao Niraj, can you repeat the question?

Niraj Aggarwal I wanted the debt repayment in 2015 also?

Srinivas Rao CY14 the repayments are around $41 million.

Moderator Thank you. We are going to take a follow up question from the line of Achal Lohade from JM Financial, please go ahead.

Achal Lohade Just one question, if I look at now given Rutgers has been consolidated for last one year is it safe to assume a similar performance in coming year was there any exception according to you and also since we couldn't compare Y-o-Y I mean fourth quarter '13 with fourth quarter of the '12 what's the comparison actually was there any growth decline on a Y-o-Y basis for chemicals, for Rutgers?

Jagan Mohan Reddy Henri do you want to address that?

Henri Steinmetz I think for the chemical side when we look into that was stable in 2013 and we see at the moment going forward I think the markets will do slightly better than 2013, so we see a slight increase as we see now going into the year compared to 2013.

Achal Lohade And for the fourth quarter '13 how does it look compared to the last year fourth quarter 2012?

Henri Steinmetz We always as we said in the fourth quarter we have seasonalities so we have products going into the building and construction industry that's normally slow in the fourth quarter and the same what we had this year we did and we had seen in the market some of the companies slowing down their production so we had some anticipated shutdown over Christmas and so we were slightly lower than the year before just to the adjustments of the market.

Achal Lohade I understood that's all from my side, all the best.

Moderator Thank you. Ladies and gentlemen as there are no further questions I would now like to hand the floor to Mr. Niraj Aggarwal for closing comments, thank you.

Niraj Aggarwal We thank the management of Rain Industries to give us an opportunity to host the call. Mr. Reddy would you like to make any closing remarks?

Jagan Mohan Reddy Thank Niraj. Thank you very much everyone for participating in today's call. As I mentioned in my previous calls we are driving towards achieving a smooth integration of Rutgers with Rain to improve the overall operating performance and to timely complete all are growth initiatives. We will continue to focus on improving our profitability despite expected challenges due to the European economy and lower aluminum pricing in 2014. We would continue to focus on optimizing the capacities and achieving the cost reduction without compromising customer specifications. Thank you very much.

Moderator Thank you. On behalf of Tata Securities that concludes this conference. Thank you for joining us you may now disconnect your lines. Thank you.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.