



"Rain Industries Limited Q3 CY13 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Rain Commodities Limited Q3 CY 2013 Earnings Conference Call hosted by Motilal Oswal Securities Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pavas Pethia of Motilal Oswal.

Pavas Pethia: Thank you Inba. Good evening everyone. I welcome all the participants to the third quarter 2013 Conference Call of Rain Industries Limited. We have with us Mr. Jagan Mohan Reddy, Managing Director of Rain Industries Limited, Mr. Sweeney, President and CEO of Rain CII Carbon LLC USA and Mr. Henri, President and CEO of Rutgers Group and Mr. Srinivas Rao, CFO of Rain Industries Limited. We commence the call with opening remarks from Mr. Jagan Reddy providing an update on recent developments and growth strategy of Rain Group. He will then be followed by Mr. Sweeney who will give an outlook of CPC business and Mr. Henri who will give the outlook of coal tar pitch business and chemical business. Lastly, Mr. Rao would provide you the highlights of financial performance during the quarter. This will be followed by a Q&A session. Before we begin I would like to mention that some of the statements made in today's discussion may be forward looking in nature that could be affected by certain risks and uncertainties. The company's actual result could differ materially from such forward looking statements. I would now request Mr. Jagan Reddy to provide an update on the key development in the Rain Group. Over to you Sir.

Jagan Mohan Reddy: Thank you Pavas. Good evening everyone and welcome to our 2013 third quarter conference call. While my colleagues Gerry Sweeney and Henri Steinmetz will share their views on the carbon and chemical industry development I would like to provide a brief update on various strategic initiatives of the group. As informed during the last call the business climate continued to remain challenging throughout third quarter 2013. We have seen volume pressures in all our business verticals. We have witnessed a sharp fall in cement dispatches due to political instability coupled with seasonality issues resulting in the cement sales being lower by about 18% during third quarter 2013 compared to second quarter 2013. Similarly the carbon division sales were lower by about 12% due to reduced pet coke trading volume combined with reduction in pitch and oil dispatches. In spite of these challenging conditions partly due to rupee depreciation our topline has seen a marginal growth of 2% compared to second quarter 2013.

Dividend – in order to avail the tax benefits provided by Finance Act 2013-2014, the Board of Directors have declared an interim dividend of Rs. 1 for equity share that is 50% on a face value of Rs. 2 per equity share fully paid up. The company can only avail the concessional withholding and dividend distribution tax benefit by paying the dividend before March 31, 2014 out of any dividend proceeds received from its overseas subsidiaries.



Moundsville closure - the Board of Directors of the company have considered and approved the closure of Rain CII Carbon LLC's calcining facility in Moundsville, West Virginia USA. This closure is brought on by the impact of new regulations of the Environmental Protection Agency USA requiring an additional investment of over \$50 million which the company's board believes is economically unviable for a facility operating at less than 50% capacity since 2009, further the closure of the above facility is not expected to have any significant impact on the combined output of the company. We are currently evaluating the financial impact of the closure and have appointed external consultant to complete the fair market valuation and impairment loss due to these measures.

Update on Russian joint venture and phthalic anhydride expansion. On our Russian joint venture the 300,000 tonnes coal tar distillation plant, construction activity is underway. Based on the latest estimations this plant is expected to start operations by early 2015. During the current quarter the group has increased its stake in its Russian joint venture from 51% to 65%. The phthalic anhydride expansion plant in Belgium with a capacity of 14000 tonnes is on schedule and will start in the fourth quarter of 2014.

Carbon black facility - Rain Group has initiated a feasibility study for the construction of an integrated carbon black manufacturing unit with a capacity of 100,000 tonnes per annum in phase I. The plant which would be integrated in to Rutgers largest tar displacement plant in Castrop-Rauxel, Germany will benefit from existing infrastructure and onsite energy demand for high pressure steam, electricity generation and a municipal hot water connection as well as the availability of competitive carbon stream on coal tar and petroleum residue. This project is part of group's strategy to convert the leading producer of calcined petroleum coke and carbon binders in to a high value carbon producers using Ruetgers' unique feedstock to further diversify their carbon products range. With an estimated capital outlay of \$80 million for phase I, this project is scheduled to be operational by end of 2016.

Seasonality - while we do not see any seasonality in CPC business our cement, chemical and other carbon products do witness some seasonality. This is mainly due to wet and cold weather conditions in various climates and general destocking and slower production as we approach year end.

Shifting of corporate office – lastly to optimize resources and to stay close to major operating facilities we are relocating Rain CII Carbon LLC's corporate headquarters from Kingwood, Texas, USA to Covington Louisiana USA. Construction on the new office building is scheduled to begin in first quarter 2014 with formal operations at the new facility to begin during fourth quarter 2014.

Thank you. I would now request Gerry Sweeney to provide an outlook on the carbon business.

Gerard M. Sweeney:

Good morning everyone and thank you Jagan. It is a pleasure to address you once again this afternoon. From the aluminum perspective during the last few months, we have seen a mild and



short lived rally in metal prices. After bottoming out at a four-year low of \$1764 per metric tonne during the first half of this year the LME aluminum price recovered to a level of \$1896 a metric tonne in the month of October 2013, however the pricing resistance at 1900 and the announced changes in the LME warehousing norms in the last week have negatively impacted market sentiment with prices retreating back down to around \$1800 per metric tonne of aluminum. In 2013 curtailments in the aluminum production outside of China have been more than offset by expanding production within that country. To date, overall production cuts in the western world are in the range of 1.5 to 2 million tonnes total, roughly 3 to 4% of the total estimated metal production during 2013. Regional premiums and the substantial shutdown costs are still supporting the continuation of production by a majority of smelters in the west. We are closely watching the impact of the new warehousing norms on the LME inventories and their potential impact on metal prices and production moving forward. The industry does still project a 6-7% growth in demand for aluminum worldwide in 2013 in the years ahead. This represents roughly 10% growth in China and 2% in the rest of the world for 2013. Aluminum is growing in demand and market share in almost all end use categories globally and this will continue to help the industry going forward. From a market perspective most second half CPC negotiations have been completed. As expected several price negotiations were more prolonged than previous quarters. These are the symptoms of current global market conditions. Smelters remain under pressure to cut costs and are pushing hard wherever possible. Our GPC cost remains stable, the average sales price realization for third quarter was lower by about \$8 per metric tonne compared to 2013 again reflective of present market conditions. Our total volumes were seeing reduced demand and some delays in shipping schedules, again these are the results of market conditions resulting from curtailments and reduced amperage at some smelters. While we remain pleased with our overall order book for the year we expect our total annual volume to be reduced from last year and our earlier guidance. We are likely to be in the range of 1.7 million metric tonnes of global CPC sales volume for 2013. Operationally for the period all our US and Indian facilities continue to operate at optimum rates with the exception of our Moundsville, West Virginia facility which has been operating below 50% of capacity. As mentioned by Jagan considering the lower capacity utilization and significant environmental capex we have taken a conscious decision to close our Moundsville plant. The lost production at Moundsville will be met from our other facilities; hence we do not foresee any major impact in our ability to produce enough for overall customer requirement. Currently the plan at Moundsville is to process all GPC raw materials at the facility through year end and distribute to customers during the first quarter of 2014. Afterward all CPC will be produced from our other facilities and Moundsville will function as a terminal only. We are currently evaluating the financial impact of the Moundsville closure and have appointed external consultants to determine the fair market value and impairment loss if any due to these measures. Overall we are comfortable with the global performance of the calcining business during the quarter in the face of weak conditions in the aluminum sector. We do not see much opportunities for performance improvement during the last quarter of this year but also do not expect much more potential downside either. We always tried to focus ourselves on companies on the lower side of the cost curve which has benefited us greatly compared to our competition during this prolonged downturn. We remain focused on protecting our margins effectively managing our balance sheet and growing our CPC business



over the long term. Thank you for your attention. Now I would like to hand over the call to my colleague Mr. Henri Steinmetz of Ruetgers.

Henri Steinmetz:

Thank you Gerry. It gives me immense pleasure to address you all once again. As indicated by Jagan Q3 turned out to be a challenging quarter majorly for carbon business and marginally for our chemical business. While we could achieve an increase in production for the chemical business compared to Q2 2013, the sales volume was marginally down by 3% due to lower trading volume. The resin and modifiers, colored asphalt as well as the super plasticizers businesses showed higher sales volume in Q3 compared to Q2 2013. The carbon division volume is down by 11%, driven by lower pitch and oil sales. While the average price level in the carbon division is nearly flat in Q3 2013, the chemical division realized higher price level per tonne of about 6% in Q3 2013 compared to Q2 of 2013 due to favorable mix change and higher price level in the trading business.

From the sourcing perspective the coal tar availability continues to be in tight supply in Europe. While we are observing upward trend in naphthalene prices both fuel oil and orthoxylene prices have continued to be under pressure. In China supported by higher realizations from other tar derivatives the pitch price has continued to be lower than tar prices. We are closely watching the situation to see how long the scenario could continue. The incremental freight and remelting costs are still preventing the entry of Chinese pitch in to European and North American market.

In Russia we are commissioning the phase I of our project and have finalized the basic engineering for phase II. Also the project is progressing well. We feel there could be marginal delay in execution, based on latest estimation, this project is expected to start commissioning early calendar year 2015. Further as indicated by Jagan in his opening remarks we have increased our stake in this JV from 51 to 65% by infusing additional equity. Now I would like over the call to Mr. Srinivas.

T. Srinivas Rao:

Thank you Henri. Thanks and a warm welcome to all the participants. As informed in view of the consolidation of financial results of Rutgers Group with effect from January 4, 2013, performance of the company during the current quarter and the nine-month ended September 30, 2013 is not comparable to the performance during the corresponding previous periods, hence I restricted all my discussions for the comparison of the current quarter performance with that of performance during second quarter of 2013.

To highlight some of the key performance indicators on a consolidated basis in Rain Group, consolidated net revenue is 29760 million rupees during the current quarter, an increase of about 2% compared to 29,066 million during second quarter of 2013. Carbon product sales volume during the current quarter is 726,000 tonnes, a decrease of 12% compared to second quarter of 2013 mainly driven by lower pet coke trading volume and reduction in pitch and oil sales. Chemical product sales during the current quarter is 76,000 tonnes a marginal decrease of 3% compared to second quarter of 2013 mainly driven by lower chemical trading volume. Cement sales volume during the current quarter was decreased by 18% to 472,000 tonnes compared to



577,000 tonnes in second quarter of 2013 mainly due to seasonality and ongoing political agitations in the state of Andhra Pradesh. Consolidated operating profit for the current quarter is 3739 million, a decrease of 10% compared to 4145 million achieved in second quarter of 2013. Consolidated operating margin is reduced marginally from 14% achieved in second quarter of 2013 to 13% in third quarter of 2013. Due to continued depreciation of rupees against US Dollar and Euro the company has incurred foreign exchange loss of 194 million rupees in the third quarter of 2013 compared to 103 million loss in second quarter of 2013. Finance cost during the current quarter is increased by 11% to 1559 million compared to 1398 million during second quarter of 2013. The increase in finance cost is mainly attributable to higher exchange rates applied for converting the interest cost incurred in US Dollar and Euro into Indian rupees. The effective tax rate during the current quarter decreased to 17% compared to 26% in second quarter of 2013 mainly due to recognition of MAT credit of 205 million rupees during the third quarter of 2013. Consolidated net profit during the current quarter is 866 million a decrease of about 38% compared to consolidated net profit of 1392 million achieved during second quarter of 2013. The company achieved a consolidated EPS of Rs. 2.58 during the current quarter, a decrease of about 38% compared to consolidated EPS of Rs. 4.13 during second quarter of 2013. As of September 30, 2013 the company has a consolidated debt of \$1.323 billion including working capital debt of \$84 million and cash and balance of about \$138 million as on September 30, 2013. The net debt as on same date is \$1.185 billion. With an existing cash balance of \$138 million and undrawn revolver facilities of \$203 million Rain Group is comfortably placed to meet the debt repayment obligations and capex projects in pipeline. The major debt repayment obligations would start only in calendar year 2018.

Thank you everyone for participating in the call. At this time I would like to open the meeting for the Q&A session. Over to the operator.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Niraj Agarwalla of Tata Securities, please go ahead.

Niraj Agarwalla: Good evening gentleman. My question relates to the CPC business. Gerry mentioned that CY 2013 we are looking at aluminum industry growth of somewhere around 6-7%, if you can talk more about the outlook in CY 2014 and specially what could be the growth rate especially in the western countries?

Gerard M. Sweeney: The growth rate for 2014 is really projected to be substantially similar as 2013, now the key for the western world in all of that is well while a growth of 2% is considered modest compared to China, remember that historically bulk of the production has been outside of China, now it is about equal, so China is still expected to grow fairly substantially somewhere upwards of 10% and the west will be once again at 2%, the key here will be the ability to start to drive down the overall LME inventory level and restore some confidence that the long term health of the industry from a price perspective. We don't expect to see further curtailments in 2014 in the west, however a lot of that is subject to what is happening in the LME price and as we move forward but overall demand is still very much projected to be strong for aluminum. In essence it



is a part of the logical tangle that is taking place in the industry that while aluminum is essentially growing in demand in all end use sectors it still is suffering from oversupply and that is something that is a bit befuddling to the industry globally because it is very good dynamic and very strong growth for any commodity. It is just China's overall production levels that are really tempering that bullish demand for product.

Niraj Agarwalla: So, Gerry if I understand it correctly most of our CPC volumes come from the Western world, we hardly sell anything in china, so for our CPC business we would be looking at modest 2-3% kind of volume growth?

Gerard M. Sweeney: That is correct, so we are not looking at 2014 really as any significant increases in CPC demand opportunity, just that modest 2-3%.

Niraj Agarwalla: Gerry, if you can just talk about the supply situation of low sulphur GPC in the US and how much of it we are importing from China and which of the specific plants in which we would be importing it?

Gerard M. Sweeney: Over the last three to four years we have imported Chinese GPC and that is through a long term strategic initiative on our part to develop a relationship within China with the National Refining Company and that relationship has strategically played a significant role in our sourcing in China. Overall we import a relative small percentage of our product because we do have strong low sulphur supplies from two particular refineries in the US that feed our entire US system. We have however at times had to bring in some Chinese low sulphur couple of cargoes a year in the region of 50-60,000 tonnes historically to make sure that we have sufficient inventory, sufficient safety stock from an overall blending perspective. I don't expect this to change in the years ahead especially with the reduced demand that we have seen over the last couple of years, this should remain pretty much at a stable level barring any unforeseen outages, but a big part of the strategic initiative to develop the Chinese sourcing opportunities and as I said it really has developed in to a very good relationship where we supply both India and India gets much more of its supply than we do to the US assets but that has been something strategically laid out from a sourcing perspective because remember we do have historically hurricane risk in the late summer and fall in the United States and we had to develop alternatives should we have any outages and such and that has worked very well for us.

Niraj Agarwalla: Lastly on the supply side, I believe that Robinson Plant the supply that we are getting from Marathon Robinson, the quality of GPC is not very good, so how are we managing the production over there?

Gerard M. Sweeney: Actually that supply has been fine for us. It has been, the observation you are stating is that supply has been kind of ever worsening, we do blend it, that has put some of the pressure on our overall low sulphur system because we do bring GPC from the US Gulf up to Robinson from a blending perspective. We have been able to temper the overall worsening quality with changes in our specifications from our customer base out of our Robinson facility, so it is not as if the



worsening quality there has just directly proportionally require that much more low sulphur. We made a conscious effort on the sales side with our end consumers out of that facility to move to specification obviously be out in front of the changes because we communicate very openly and fluidly with the refiner there and understand what changes could be coming from the refinery production in advance of those changes and then we are talking to the customer base, so well yes the general observation is correct, it is not having a great impact on us, overall we are requiring more low sulphur to go up there but not in direct proportion and we continue to move the specification with our end-consumer and consumers from that facility to help compensate for the worsening quality.

Niraj Agarwalla: Just the last thing on this topic itself, we have always maintained that on the CPC business our EBITDA margins trend to be in the range of \$70-90 per tonne, so because of this issue of low sulphur GPC and that we import from China would you say that this range will be maintained or this range might trend downwards a little bit?

Gerard M. Sweeney: We have had that margin, I don't expect it to change significantly. We have had the overall challenge, it is not necessarily the Chinese CPC, overall the challenge of reducing CPC price is bumping up against our ability to just push all of our prices down per se and so it is not necessarily the Chinese coke impact that is hitting us so much as just in a down market, there is only so much you can do to push them, we have been very successful in pushing down our prices, only so much you can do, that is why you see a nominal impact on our margin which has happened kind of in the last few quarters. We are trying to combat that and realistically I would say we should be close to our historic margins in this business.

T. Srinivas Rao: I think Gerry is correct. We should be able to maintain the historical margins whatever we enjoyed on the CPC business for few reasons like the new energy project what we constructed in Lake Charles in US will contribute to our EBITDA margins on the same way the energy prices in India are on a upside move, because of these two reasons the incremental revenues from electricity or sale of energy should be able to help us to maintain the historical EBITDA margins what we enjoyed in the CPC business.

Niraj Agarwalla: Sir Lake Charles would have been operational in this quarter also, so at what level of utilization would have that plant run?

Gerard M. Sweeney: You have to understand that Lake Charles plant is still a new energy project and a large one overall, so we are still shaking up that plant and what Srinivas is referring to is that as we are going forward we are shaking up that plant and will get better overall performance reliability from the plant, so we will get better, we will experience better overall profitability from that energy project going forward which will again help our overall margins.

Moderator: Our next question is from the line of Achal Lohade of JM Financials, please go ahead.



- Achal Lohade:** I have few queries, quickly on the data points number one, in terms of profitability I know you won't share separate numbers for the US Company and Ruetgers can you help us understand what has been the profitability trend quarter-on-quarter in these two segments, CPC specifically and CPP in terms of profitability because I see a substantial decline sequentially in the profitability for carbon products as a segment, can you help us understand in break up terms?
- T. Srinivas Rao:** Actually as we are integrating the businesses and reporting the performance on a consolidated basis there is no break up available separately how much is from Europe and how much is from US because these are all the Indian GAAP financial statements and we are viewing the carbon business as a whole because each maintains the financial statement in their local GAAP like the Europe maintains the financials in IFRS and US company maintains their local accounts in US GAAP, there are no separate financials available for Indian GAAP.
- Gerard M. Sweeney:** I think the guidance in our comments, what Srinivas is saying is absolutely correct that we cannot necessarily go through it and give you metrics specific to it but I think if you look at our comments from Henri and I you can understand that, I have given you the idea that really we saw an \$8 decrease in our realization from a sales price perspective while our GPC prices remained relatively the same from the prior quarter and as Henri mentioned in the Ruetgers base carbon business we were impacted a little more because of the squeeze in the business from the tar to pitch sales overall but beyond that as Srinivas said it is difficult to give you much more guidance related to that.
- Achal Lohade:** To put it differently can we assume this kind of performance for the last quarter could be there in coming quarters, even there is no one-off as such, and is that a correct understanding sir?
- T. Srinivas Rao:** Yes, there is no one-off item like in the commentary in the opening remarks Mr. Gerry mentioned, Mr. Henri mentioned there is a decline in the sales volume because of the general slowdown in the aluminum industry.
- Jagan Mohan Reddy:** We do expect that there will be some seasonality issues in the fourth quarter but we should be back in the first quarter of 2014 but compared to 2013 it could be more of flattish but at this point in time it is too early to say because we have not yet had discussions with customers yet.
- Achal Lohade:** Sir in terms of the commentary you said that the Moundsville plant you are looking at closure because of environmental issue, can you please elaborate a little bit as to what exactly has changed, do you see any impact on the other plants in US if at all what would be that impact and also when we acquired in 2007 what would be the value we might have paid for Moundsville plant?
- Gerard M. Sweeney:** To give you the specifics where your question first started. Under the current administration here in the United States there has been a full national environmental protection agency review and new emission standards have come out across the entire country. As such, there was a review and in Marshall County West Virginia which sits immediately on the Ohio River essentially where



between West Virginia and Ohio where there are many large industry, as a matter of fact at our Moundsville, West Virginia plant we are essentially sandwiched between two huge coal fired power plants and so in the review that EPA conducted on Marshall County they declared that County in what is called nonattainment, meaning they could attain no more SO₂ emissions than currently are done and they must develop a plan to reduce SO₂ emissions going forward. That nonattainment status in Marshall County meant that we would have to invest \$50-60 million in the Moundsville facility to capture our waste heat and then incinerate that waste heat. That simply is not an economically feasible scenario for us in Moundsville unlike what we had in Lake Charles which were we just added the waste heat capture and the SO₂ scrubbing. The situation is where we don't run the plant full enough and also the revenues that we could receive from that energy is just simply not feasible, it was unfortunately a relatively easy decision to say that we were no longer going to operate that facility. We have reviewed all our other facilities under the new criteria and we know that we will need to add some SO₂ scrubbing at one of our Louisiana facilities and potentially at another. We have that in our overall plans going forward as a company and that was part of the criteria through which we evaluated the Moundsville situation whereas we already have waste heat capture at those other facilities and given that we do it is a modest \$15-20 million investment at SO₂ scrubbing going forward versus the substantial capital outlay that would be required for the Moundsville facility, so as such the decision to shut Moundsville was a prioritized because we can produce the equivalent amount of CPC that we are currently producing at our existing facilities and with the addition of SO₂ scrubbing it will provide opportunity to even increase our production going forward at some of our other facilities.

Achal Lohade: Understood, just to clear my understanding, you are saying that you have evaluated all of your other facilities and you could require some modest CapEx in one your Louisiana factory and investment could be \$15-20 million, is that correct understanding Sir?

Gerard M. Sweeney: Yes, that would be an out years, that is not an immediate though. That would be something that would be may be late 2014 and 2015 in to 2016 would be our capital outlay.

Achal Lohade: How much of the \$700 odd million we paid for the acquisition would be attributed to Moundsville facility?

Jagan Mohan Reddy: We have appointed an independent agency to work out those details but though you know it is a 400,000 tonnes plant we have actually acquired 1.9 million tonnes out of that 400,000 tonnes but the actual value of the facility will not be that much because there are lot of other intangibles also that are valued, so the plant value will not be that much but we cannot tell an exact number at this point in time. Write off should be a one time thing but otherwise we don't expect any impact in our operations per se.

Achal Lohade: But closing down would require some severance package to the employees etc., is that correct?

Jagan Mohan Reddy: The retrenchment it is not much, it is only marginal, so we do not think that would be a big issue.



- Gerard M. Sweeney:** Just from an order of magnitude we are only talking about from an employee perspective we have 28 people at the plant, we only have in the entire company 250 people in the United States operating our seven plants and also in administration for the company, so we are not talking big numbers here from a severance perspective or anything like that.
- Achal Lohade:** Understood. You said in the earlier commentary that you have announced an interim dividend of 1 rupee per share and you mentioned some budget related clause can you help us understand what is the amount of repatriation we have done from our company to India?
- Jagan Mohan Reddy:** As per the Finance Act 2013-2014, the Government of India has given, for this year, it was not a continuous thing but at least for this year, Government of India that whatever dividend you actually bring from foreign country, apart from the withholding tax whatever is levied 15%, you will not be required to pay any dividend tax in India, so actually we can set off the 15% whatever we paid here towards that and that was only available for this year and so that that is the reason why we thought, we actually brought in the dividend fund whatever we were declaring from the US and then we are declaring the dividend because assuming that we declare it next year means that we cannot declare an interim dividend but we can declare but once we announce results and once we have the AGM before March 31, 2014 which may not be possible, so it is not actually a good idea to avail the benefit otherwise, we will be losing a lot of money, we thought we might as well avail this and so we opted to, the Board has opted that we should declare interim dividend.
- Achal Lohade:** Just to take it forward if this clause gets continued even in the coming years we would certainly look at repatriation at a much larger scale, is that a correct understanding Sir?
- Jagan Mohan Reddy:** I do not know that but I cannot say about future, if this clause if it is going to be extended year on year basis you are looking at more of interim dividend than final dividend. So it will be a combination, I don't know, I cannot comment on the future but basically this year I can mention that it was mainly on account of the Government of India Finance Act.
- T. Srinivas Rao:** The main issue is Indian financial year starts on April 1 and ends on March 31, whatever dividend you are repatriating from outside India you should distribute to the Indian shareholders in the same tax financial year, because of that for the calendar year 2013 hypothetically if the board declares a dividend or recommends a dividend that can be paid to the Indian shareholders only after the AGM is held by the shareholders, that cannot happen till mid of May because AGM is generally held after 120 days to 150 days, so because of this issue Mr. Jagan is saying that generally it can happen only as an interim dividend where you have flexibility. Immediately after the Board meeting within one week to 15 days you can distribute the dividend to the shareholders.
- Achal Lohade:** Sir the other question is on the capex, you mentioned that one, you have increased the holding in the JV, how much equity have you put in that and secondly we have also mentioned about phase



I capex of about \$80 million, can you please elaborate a little bit as to what will be the total capex, how many phases, what will be the capex in that case?

Henri Steinmetz: In terms of Russian JV, the capex for the total project we speak about \$55-60 million for all the phases together. In the first phase we and the shareholder spend about 26 million, spend of today and the total will be between 55 and 60 million for the total projects to be finalized in beginning of 2015. For the capital increase it was about \$4.3 million tentative increase from the 51 to 65%.

Achal Lohade: Sir for overall consolidated level what will be the capex for the current year and coming two years broadly?

Jagan Mohan Reddy: The projects we have is the Severtar project and PA project, as Henri mentioned we will be spending about \$50 million for the second phase that is Severtar Project and this another \$17 million for Phthalic Anhydride plant, that will be completed by end of next year, this is the thing and then other capex basically is maintenance capex and as we said we don't have any other major capital expenditure apart from these two and we have to install in Chalmette Louisiana we have to instal FGD. We have to commence sometime, the plant sometime in middle of 2016, so that takes about a year year-and-a-half to complete, so there is no capex that we expect. Apart from these two projects we don't expect anything at least for the next one-and-a-half years.

Achal Lohade: On the broader side of listing part of it we were earlier looking at kind of US listing or overseas listing to put it differently what is thought on that in terms of time line or any such thing?

Jagan Mohan Reddy: While I cannot comment on the timing I just want to give you this. Our first call option to repay our bond which we actually have issued in 2010, the first period we can actually repay is only December 2014, so until then we cannot, even if we raise any funds there is no use for us. We will not have much use for those funds, so the call option for the first bond we issued is actually December 2014 and the call option for the bond that was issued for Ruetgers acquisition actually starts in January 2016, so between these two times what we want to do is we may actually do a new bond to reduce the interest cost and also combine it probably with an IPO so that we can pay some debts using the IPO proceeds, it will be a combination of these few things, otherwise even if we raise any funds IPO at this point of time there is no use for us at this point of time.

Moderator: Thank you. Our next question is from Diomidis Ntountounakis of Chenavari Capital.

Diomidis N.: I would like to ask more details on the underperformance on the Ruetgers segment if possible and secondly I was trying to understand on the operating profit as I see it, how much of that is underlying drop is profitability and how much is FX during performance of the rupees, can you sort of give us bit of guidance?

Henri Steinmetz: For Rutgers the major issue we are facing is on the carbon side which is driven by the situation in the aluminum industry where we sold lower than expected volumes and on the other side we sold lower than expected oils. So on the outside when you look there was a decrease on the fuel price



in Europe by \$80 per tonne in Europe if you compare to the end of last year that affected the profitability. On the chemical side we had a slow start in the first quarter but we saw a continued growth over the second and third quarter and improving the result for the chemical products and as we look forward probably we have over the holiday season end of the year has slowdown but we are very confident that chemical sector as such has continued to improve especially as at the moment people in Europe are getting more confident and we would see continued improvement going forward.

Diomidis N.: Okay thanks and then a bit on the operating profitability question just if you could help me understand how much of that is related to the rupee performance and how much is drop or increase in profitability for the three segments?

Jagan Mohan Reddy: Based on what we are understanding, we are not breaking the profitability or operating profit company wise, Ruetgers or Rain CII Carbon but we are actually going product wise, what it is each segment basically carbon segment, the chemical segment and cement segment, that is what we are providing but we are not breaking up the company as Ruetgers or we do not have the information for Ruetgers or Calcine or CII Carbon.

Diomidis N.: That is perfectly fine and I understand but on a year over year basis you mentioned the effect of rupee, can we not understand in which three segments how much of that is affected by the rupee?

Gerard M. Sweeney: Can you go ahead and repeat your question one more time and I will make sure that I understand it and repeat it to them.

Diomidis N.: If you could just explain a bit how much of the segment results in the three segments that you have has been affected by the rupee and to what extent?

Gerard M. Sweeney: Did you get that guys, he is asking, in the three segments that we are reporting what was the impact of the rupees on each of the segment?

Jagan Mohan Reddy: There is no impact on cement, as matter of fact, technically except for reporting because you are aware 89% of our sales at group level is actually in foreign currency in US Dollars so only 11% is actually in rupee and out of that is sold in India about 5% of that is sold in India against dollars, so basically, technically there is no impact for us because of rupees but what happens is when we actually report in the Indian GAAP we actually report as of September 30 closing whatever is the exchange rate we just basically convert that and then report so except that technically being a majority more than 90% coming in from the overseas company the rupees does not really impact us except for reporting purposes.

Diomidis N.: How much was the affect of the translation?

T. Srinivas Rao: Except for the interest which is getting reinstated the interest incurred in Euro terms or US Dollar terms getting reinstated in Indian rupees, all other things are getting reflected whatever is the dollar endings we have operating margin in dollar, our operating margin in Euro it is getting



converted both in topline as well as expenses are getting converted at a specific rate, so the decline in the performance is mostly attributable to the decline in volumes.

Moderator: As there are no further questions from the participants I now hand the floor back to Mr. Pavas Pethia for closing comments.

Pavas Pethia: Thank you Inba. Mr. Reddy, will you like to have some closing comments.

Jagan Mohan Reddy: Thanks Pavas. Thank you all. As I mentioned in my previous call we are driving towards achieving smooth integration of Ruetgers with Rain, to improve the overall operating performance and to timely complete all our growth initiatives. We would continue to focus on optimizing the capacities and achieving the cost reductions without compromising customer specification. Thank you all for participating in the call.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Motilal Oswal Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Note:

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