

MANAGEMENT DISCUSSION AND ANALYSIS

1. OVERVIEW

RAIN Group is one of the world's largest producers of calcined petroleum coke (CPC), coal tar pitch (CTP), other carbon products (OCPs) and advanced materials. RAIN operates in three key business verticals: Carbon, Advanced Materials and Cement. It has production facilities in eight countries across three continents, and continues to grow through capacity expansions and mergers and acquisitions throughout the world.

Our Carbon business segment converts the by-products of oil refining (i.e., green petroleum coke (GPC) and steel production (i.e., coal tar) into high-value carbon-based products [i.e., calcined petroleum coke (CPC), coal tar pitch (CTP) and other carbon products (OCP)]. These by-products are critical raw materials for the aluminium, graphite, carbon black, wood preservation, titanium dioxide, refractory and several other global industries.

Our Advanced Materials business segment does the innovative downstream transformation of a portion of our carbon output, petrochemicals and other raw materials into high-value, eco-friendly raw materials that are critical to the specialty chemicals, coatings, construction, automotive, petroleum and several other global industries.

Our Cement business segment produces and markets high-quality ordinary portland cement (OPC) and portland pozzolana cement (PPC) consumed largely by the civil construction and infrastructure industries within India.

Our scale and process sophistication provide us the flexibility to capitalise on market opportunities by selecting raw materials from a wide range of sources across various geographies, adjusting the composition of our product mix and producing products that meet stringent customer specifications, including several specialty products.

Our global manufacturing footprint and our integrated worldwide logistics network have also strategically positioned us to capitalise on market opportunities by addressing raw material supply and product demand on a global basis in both established (mainly North America and Europe) and emerging markets (mainly Asia and the Middle East).

The following operating and financial review is intended to convey the management's perspective on the operating and financial performance of RAIN Group for the year ended December 31, 2018. This should be read in conjunction with RAIN Group's Standalone and Consolidated Financial Statements, the schedules and notes thereto, and the other information included elsewhere in the Annual Report. RAIN Group's Financial Statements have been prepared in compliance with the requirements of the Companies Act, 2013, the guidelines issued by the Securities and Exchange Board of India (SEBI), in accordance with Indian Accounting Standards (Ind AS) and the other accounting principles generally accepted in India.

2. DISCUSSION ON FINANCIAL PERFORMANCE

Consolidated Financial Performance

Particulars	(In ₹ million)	
	CY2018	CY2017
Income from Operations	140,490	114,496
Adjusted Operating Profit	21,471	22,727
Profit Before Tax	9,957	10,839
Adjusted Net Profit After Tax	7,305	7,977

During CY2018, our business generated revenue from operations of ₹ 140.5 billion and adjusted operating profit of ₹ 21.5 billion. The revenue in CY2018 was higher by 22.7% compared to CY2017 mainly due to improved price realisations, including the depreciation of the Indian Rupee against the US Dollar and Euro. The operating margins in CY2018 were comparatively lower due to higher operating cost resulting from an increase in raw material prices. As a result, the adjusted net profit after tax in CY2018 was ₹ 7.3 billion i.e., ₹ 0.7 billion lower than the ₹ 8.0 billion generated in CY2017. Consequently, the adjusted earnings per share is ₹ 21.7 in CY2018 as against ₹ 23.7 in CY2017.

With a moderate performance in CY2018 coupled with a strong cash balance of ₹ 8.5 billion and undrawn working capital loans of ₹ 9.6 billion, RAIN Group is well placed to meet its debt-servicing obligations in the future and to fund the expansion projects initiated.

The paid-up share capital of RAIN Group as on December 31, 2018 is ₹ 672,691,358, comprising 336,345,679 fully paid-up equity shares of ₹ 2 each.

3. PERFORMANCE OF CARBON BUSINESS SEGMENT

Particulars	(In ₹ million)	
	CY2018	CY2017
Sales Volumes ('000 MT)	2,715	2,796
Net Revenue	95,681	72,205
Adjusted Operating Profit	16,975	16,476
Adjusted Operating Profit (%)	17.7	22.8

The Carbon business segment includes the manufacturing and trading of carbon products comprising CPC, CTP, GPC, and other derivatives of coal distillation, including creosote oil, naphthalene, carbon black oil and other basic aromatic oils. Energy produced through waste-heat recovery in the manufacturing of CPC is also included in the Carbon business segment. About 68.5% of RAIN Group's consolidated revenue for CY2018 was generated from the Carbon business segment.

During CY2018, the Carbon business segment generated ₹ 95.7 billion in net revenue, an increase of approximately 32.5% as compared to ₹ 77.2 billion generated during CY2017. The increase in revenue was due to an increase in average realisations by approximately 36.5%, including exchange fluctuation from depreciation of Indian Rupee

against US Dollar and Euro, partially offset by decrease in volumes by approximately 2.9%. The adjusted operating margin decreased to 17.7% in CY2018 as compared to 22.8% in CY2017. Margins declined in the calcination business due to higher operating costs from increase in raw material costs coupled with the consumption of high-cost raw materials as consequence to the ban on import of pet coke in India. Margins declined in the distillation business due to higher operating costs from an increase in raw material costs.

With encouraging prospects for steady-to-increased demand by end-customer industries, we expect the Carbon business segment to remain comparatively stable in the future.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4. PERFORMANCE OF ADVANCED MATERIALS BUSINESS SEGMENT

Particulars	(In ₹ million)	
	CY2018	CY2017
Sales Volumes ('000 MT)	472	492
Net Revenue	34,844	32,035
Adjusted Operating Profit	3,787	5,385
Adjusted Operating Profit (%)	10.9	16.8

Our Advanced Materials business segment mainly comprises engineered products, petrochemical intermediates, resins and naphthalene derivatives, which are derived from our primary distillate – naphthalene – and additional raw materials purchased from third parties. About 25.0% of the consolidated revenue for CY2018 is from the Advanced Materials business segment.

During CY2018, our Advanced Materials business segment generated ₹ 34.8 billion in net revenue, an increase of 8.8% as compared to ₹ 32.0 billion during CY2017. The increase was primarily related to a 13.4% increase in blended price realisations during CY2018 partially offset by 4.1% decrease in sales volumes. The adjusted operating margin decreased from 16.8% in CY2017 to 10.9% in CY2018 due to an increase in operating expenses and raw material prices, coupled with unplanned shutdowns.

5. PERFORMANCE OF CEMENT BUSINESS SEGMENT

Particulars	(In ₹ million)	
	CY2018	CY2017
Sales Volumes ('000 MT)	2,229	2,104
Net Revenue	9,083	9,679
Adjusted Operating Profit	709	866
Adjusted Operating Profit (%)	7.8	8.9

Our Cement business segment is engaged in the manufacture and sale of cement. The products include high-quality OPC and PPC. About 6.5% of the consolidated revenue of RAIN Group for CY2018 was from this business segment. During CY2018, this segment generated ₹ 9.1 billion in net revenue. Due to a decline in price realisations of approximately 11.4% in CY2018 despite an increase in volumes of approximately 5.9% there is a decrease in revenue by approximately 6.2% compared to ₹ 9.7 billion during CY2017. The Cement business segment operated at an improved average capacity utilisation of approximately 56% during CY2018 compared to approximately 52% in CY2017.

The adjusted operating margin of Cement business decreased from 8.9% in CY2017 to 7.8% in CY2018 mainly due to a decline in average realisation and increase in operating costs.

6. OVERALL BUSINESS AND GROWTH STRATEGIES

RAIN Group's strategy is aimed at process improvement and the development of new, higher-margin products and technologies through research and development (R&D) initiatives. Emphasis is placed on performance, sustainability and utilisation of alternative raw materials. RAIN Group intends to maximise efficiencies and minimise costs by combining the purchasing, trading, plant operations, logistics management, finance and R&D functions across all business segments and by executing cost-reduction initiatives.

RAIN Group believes that the scale of its vertically integrated organisation will provide an effective platform to continue to develop higher-margin downstream products. The size and efficient logistic networks of its plants allow RAIN Group to realise economies of scale. RAIN Group has integrated its coal tar and petro tar distillation operations with its downstream operations

Our production facilities have been awarded ISO certifications for maintaining quality and environmental management standards.

that efficiently use the products derived from its primary distillation process and allow generation of incremental margins greater than the margins that it generated through the sale of conventional primary distillation products.

The commissioning of the Russian CTP project in 2016 provided a reliable long-term source of coal tar supply. Consequently, RAIN Group enjoys flexibility to increase the volume of co-products and expand its production in downstream products from this facility. The strategic location of the project provides easier market access to eastern Europe.

7. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The internal audits of RAIN Group companies across India, Europe and North America were carried out by EY, India, and the observations of the internal auditors and their recommendations are presented to the Audit Committee of the Company. Also, the implementation of recommendations of internal auditors are reviewed during monthly review meetings and reported to the Audit Committee on a quarterly basis. Further, the Company established an in-house internal audit department in India to carry out robust reviews of various RAIN Group companies in India, Europe and North America and increase the frequency of the internal audit visits from 2018 onwards.

RAIN Group has optimal internal control systems and procedures in place to handle all its business processes such as purchasing raw materials and stores, including components, plant and machinery equipment, and the sale of goods and other assets.

RAIN Group has clearly defined roles and responsibilities for all managerial positions. Its operating parameters are monitored and controlled effectively through its SAP ERP software system.

RAIN Group has established a global shared-service centre in India to support SAP users across its global

facilities. This enables effective utilisation of SAP for implementing efficient internal controls and timely reporting of financial and operational information.

8. HUMAN RESOURCE DEVELOPMENT AND INDUSTRIAL RELATIONS

RAIN Group employs more than 2,600 employees directly and indirectly through its subsidiaries across the globe. It believes that the quality of these employees is the key to its success and is committed to providing necessary human resource development and training opportunities to equip employees with additional skills to enable them to adapt to contemporary technological advancement and evolving workplace requirements.

Industrial relations during the year continued to be cordial, and RAIN Group is committed to maintaining these relations through effective communication, meetings and negotiation.

9. SAFETY AND ENVIRONMENTAL COMPLIANCE

We continuously seek to improve safety and reliability at all our production facilities. Our production facilities have been awarded ISO certifications for maintaining quality and environmental management standards. These certificates demonstrate RAIN Group's efforts in ensuring high product quality standards and compliance with environmental laws and regulations.

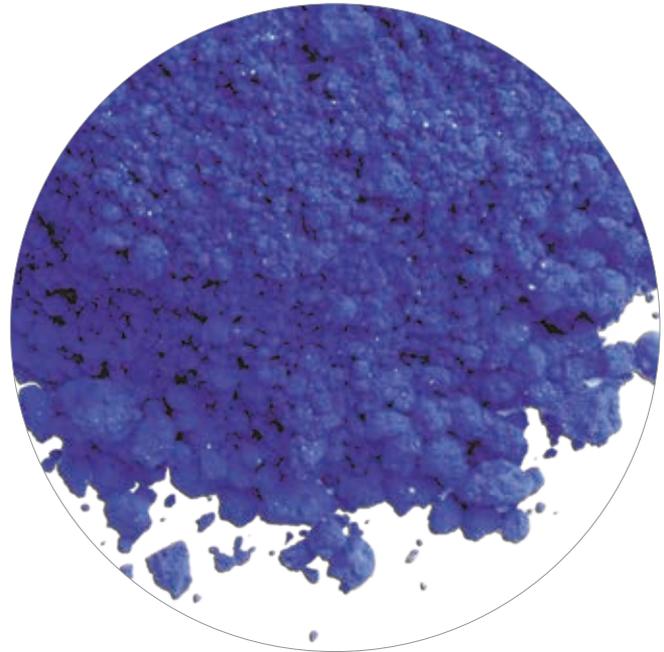


MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

We have an extensive safety programme, which includes formal training for all employees, preventive measures such as pre-job safety analyses and a system aimed at identifying risks, taking corrective actions and preventing incidents.

Our production facilities also have been awarded with ISO certifications for energy management systems. We follow a systematic approach in achieving continual improvement in performance, including energy efficiency, energy security, energy use and consumption. In addition, our production facilities have been awarded with the certification for compliance of international occupational health and safety management.

Prevention of safety-related incidents is one of our highest priorities. We have an extensive safety programme, which includes formal training for all employees, preventive measures such as pre-job safety analyses and a system aimed at identifying risks, taking corrective actions and preventing incidents. We regularly conduct internal audits of this safety system. Our management team has implemented a structured process for handling, monitoring, documenting and learning from near-miss accidents. We have taken stringent measures to reduce the number of recordable incidents Company-wide and the monetary incentives of most employees are linked to fulfilling the Company's safety targets.



10. STATUTORY COMPLIANCE

The Managing Director makes a declaration at each Board Meeting regarding compliance with provisions of various statutes after obtaining confirmation from all the operating plants across all subsidiary companies within India and abroad. The Company Secretary ensures compliance with SEBI Regulations and provisions of the Listing Agreement and with the guidelines on insider trading for prevention of the same.