

AMENDMENT: FITCH AFFIRMS RAIN CII CARBON (INDIA) LTD AND ITS US SUBSIDIARY, RAIN CII CARBON LLC

Fitch Ratings-Mumbai/Singapore-19 February 2009: This announcement corrects the version issued earlier today. In the 3rd paragraph, the correct position of the combined entity is the world's largest producer of calcined petroleum coke, not the world's second largest. The corrected version as follows:

Fitch Ratings has today affirmed India-based Rain CII Carbon (India) Ltd's (RCCIL) and its US-subsiary, Rain CII Carbon LLC (RCC)'s, Long-term foreign currency Issuer Default Ratings (IDRs) at 'B' with Stable Outlook. The ratings of the following instruments have also been affirmed:

- RCCIL's senior secured USD54.3m revolving credit facility: 'B+'/'RR3';
- RCCIL's senior secured USD120.7m term loan (of which USD110.6m is outstanding): 'B+'/'RR3';
- RCC's senior secured USD40m revolving credit facility: 'B+'/'RR3';
- RCC's senior secured USD180m term loan (of which USD168.7m is outstanding): 'B+'/'RR3'; and
- RCC's USD235m senior subordinated notes (unsecured): 'B-' (B minus)/'RR5'.

The ratings reflect the combined entity's strength as the world's largest producer of calcined petroleum coke (CPC) and the relatively stable spreads between CPC and green petroleum coke (GPC, the key raw material) over the past few years. The ratings further reflect the demonstrated de-leveraging of RCCIL and RCC on an individual and consolidated basis, on account of strong earnings and cash flows, and lower debt due to scheduled repayments. The entity reported a net debt/EBITDA for the 12-month period ended September 2008 of under 3x compared to Fitch's expectation of around 4x-5x.

The acquisition of RCC by RCCIL has also generated tangible synergies in freight costs through a reorganisation of sourcing/supply arrangements, as well as energy savings. The ratings further reflect the pass-through nature of the majority of supply contracts, wherein GPC and freight costs are largely passed on to the customer. However, risks remain on account of existing inventory of higher cost GPC in light of the ongoing softening of GPC prices. Fitch expects that this could have an adverse impact on margins during FY09. In addition, the ratings take into account the strong operating performance during FY08 due to contracts negotiated during Q407 and Q108.

Given the substantial change in market conditions over FY08, Fitch has applied stresses on the earnings and enterprise value/EBITDA multiple used to arrive at the recovery value for the company's bonds. The agency expects that despite a tight credit environment, there would continue to be sufficient value within the combined entity to enable senior secured lenders to achieve full recovery in a distressed scenario, reflecting the relative stability of the business. The Recovery Rating of 'RR3' has been affirmed for the senior secured lenders based on Fitch's expectation that the higher recoveries in the US assets would partly offset lower recoveries of the Indian assets. The Recovery Rating of the senior subordinated (unsecured) note has been affirmed at 'RR5' reflecting the agency's continued expectation of lower residual recovery value in a distressed scenario.

Fitch notes that margins are relatively less impacted by the substantial decline in aluminium prices over H208, and the spreads are a reflection of primarily the dynamics between aluminium production volume, available calcining capacity and supply availability of quality GPC. The aluminium sector has been witnessing production cuts over Q408, with further cuts expected over H109, which could adversely impact CPC demand. Lower metal production will result in lower demand for CPC, and could also put pressure on spreads and margins.

Fitch expects the company to generate lower EBITDA in FY09 and FY10 compared to FY08 due to a combination of lower volumes, and tighter spreads between GPC and CPC. However, the downside risks are partly offset by the contracts already in place for H109 at comfortable spreads, and the fact that quality GPC remains in short supply relative to demand. With CPC accounting for

only around 6%-8% of aluminium production cost, Fitch believes that the cost savings from renegotiation of purchase contracts by aluminium players would only have a small impact on their operating costs and margins, which in turn could limit the extent of pressure on the company's spreads. Any greater-than- expected decline in volumes and spreads materially impacting credit metrics could act as a negative rating factor.

The combined entity is the world's largest producer of CPC, and has a capacity of around 2.5m metric tonnes per annum. For the 12-months ended September 2008, the entity reported combined revenues of around USD759m, with EBITDA margins of around 27% and a net debt/EBITDA of 2.7x. This compares with a combined pro-forma revenue of USD540m and a net debt/EBITDA of around 6x for the 12-months ended June 2007.

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