

HEG Limited

Q4 & FY2013 Results Presentation



Introduction

- ✧ **Leading manufacturer** and exporter of graphite electrodes in India
- ✧ One of the **lowest cost** producers of graphite electrodes
- ✧ Strong presence in value added **Ultra High Power (UHP)** segment
- ✧ Diversified **customer portfolio** - POSCO, US Steel, Arcelor Mittal and Nucor Corp
- ✧ **Graphite electrodes manufacturing plant** in Mandideep – Rated capacity at 80,000 MT
- ✧ The **largest single-site graphite electrodes manufacturer in the world**
- ✧ **Captive power** generation of **77 MW** provides **reliability & self-sufficiency**



Sector Perspective

- ✶ **World crude steel production (ex-China) for Q1 CY2013 was 3.6% lower as compared to the corresponding period**
- ✶ **2013 global apparent steel use expected to increase by 2.9 %, to 1,454 Mt, following growth of 1.2% in 2012**

(Source: World Steel Association)

- ✶ **Graphite Electrodes demand based on steel produced via the EAF route**
 - Continued growth trajectory expected for steel produced through the EAF route in the long run
- ✶ **Pricing pressure on graphite electrodes and needle coke expected to continue**



Performance Perspectives

- ✧ **Healthy operational performance in both segments, graphite electrodes and power**
- ✧ **Capacity utilisation around 85% for the quarter**
 - Annual capacity utilisation at around 75 %
- ✧ **Graphite electrodes demand expected to be supported by steel demand**
 - HEG consolidates position as world's largest single site plant of Graphite Electrodes
- ✧ **Financial highlights**
 - Graphite electrode prices continue to contract further
 - Needle coke prices for CY2013 fixed at lower rates as compared to previous year
 - Power division performance robust
 - Exceptional item represents FX gain of ₹ 2.6 crore
- ✧ **Healthy balance sheet continues to support operations**



Highlights

- ☀ Total income from operations in FY2013 rises by 14% at ₹ 1,622.6 crore as compared to ₹ 1,424.6 crore in FY2012
- ☀ EBIDTA (before exceptional items) in FY2013 increases by 19% at ₹ 306.7 crore from ₹ 258.6 crore in FY2012
- ☀ EBIT (before exceptional items) in FY2013 higher by 22% at ₹ 244.1 crore from ₹ 200.7 crore in FY2012
- ☀ EBT (before exceptional items) in FY2013 increases by 13% at ₹ 180.5 crore from ₹ 160.0 crore in FY2012
- ☀ PAT in FY2013 rises by 70% at ₹ 105.8 crore from ₹ 62.3 crore in FY2012
- ☀ EPS (Basic) in FY2013 at ₹ 26.5 from ₹ 15.3 in FY2012



Management views

Commenting on the current scenario, Mr. Ravi Jhunjunwala, Chairman and Managing Director, HEG Limited, said:

“The global economic scenario has shown signs of improvement, though recovery continues to drag. Emerging markets continue to gather economic momentum owing to better local demand. The United States is delivering mildly positive growth whereas the Euro zone continues to be affected on account of debt & sovereign crisis. The steel industry, which is a barometer of global growth, has been cast into challenging times, where barring China, growth is turning out to be negative. We have seen an impact on graphite electrode prices, which have moved into softer territory as a result.

Given this scenario HEG has delivered an operating performance that is in line with our projections. Overall, the Company has shown healthy capacity utilisation rates leading to stable volumes as compared to the previous year. We continue to lay emphasis on production of world-class quality products and aim to deliver better operational and financial performance going forward.

We are cautious in our outlook given the short-term downward bias in prices of graphite electrodes. Prices for needle coke, which is our key input, too have seen a similar trend in the current year and should help translate into volumes and margins that are similar to the levels seen this year.”



Management views

Commenting on the results, Mr. Manvinder Singh Ajmani, Head – Corporate Strategy, HEG Limited, said:

“I am pleased that we have achieved full year capacity utilisation at around 75%, in an environment marred by weaker demand for steel in the key developed countries. Graphite electrodes have mirrored this trend with prices trending lower as steel makers chose to defer orders.

Our focus during the quarter and much of last year has been to enhance the operating metrics of graphite electrodes manufacture. The emphasis has been to drive up process efficiencies, reduce wastage and benefit from lower consumption of power.

We have secured our needle coke supplies for the full year at lower prices as compared to last year. Benefits of reduced pricing of needle coke are likely to be largely offset due to lower pricing of graphite electrodes during the year, but going forward we expect to hold on to a steady level of margins.

Full year performance of the power division was robust, resulting in margin expansion. Due to the seasonality factor, operations at the hydel power plant in Tawa will resume post commencement of monsoons.”



Financial performance – A review

Revenues:

- ☀ FY2013 Total Income higher by 14% at ₹ 1,622.6 crore as compared to ₹ 1,424.6 crore in FY2012
- ☀ Q4 FY2013 Total Income at rises by 9.5% ₹ 446.3 crore as compared to ₹ 407.6 crore in Q4 FY2012
- ☀ Higher quarterly volumes due to shift of sales from third quarter to current quarter
- ☀ Healthy capacity utilisation rates attributable to stable volumes as compared to the previous year; volumes expected to rise steadily in H2 FY2013

Particulars (₹ crore)	Q4 FY2013	Q4 FY2012	Shift (%)	FY2013	FY2012	Shift (%)
Total Income	446.3	407.6	9.5	1,622.6	1,424.6	13.9

Financial performance – A review

Total Expenditure:

- ✧ Domestic input costs continue to exhibit some moderation
- ✧ Needle coke prices show a declining trend; CY 2013 needle coke supply is contracted at lower prices as compared to previous year
- ✧ Interest cost higher due to:
 - Increased borrowings on account of recent expansion of the graphite electrode facility

Particulars (₹ crore)	Q4 FY2013	Q4 FY2012	Shift (%)	FY2013	FY2012	Shift (%)
Total Expenditure	377.8	335.2	12.7	1,329.5	1,182.8	12.4
<i>(Increase) / Decrease in Stocks</i>	49.8	(0.4)	NA	(37.7)	4.5	NA
<i>Consumption of Raw Materials</i>	181.2	200.1	(9.4)	824.3	694.5	18.7
<i>Power & Fuel (Net of Interdivisional purchases)</i>	24.6	32.9	(25.2)	112.8	105.4	7.1
<i>Staff Cost</i>	15.5	12.1	28.2	55.8	47.2	18.3
<i>Other Expenditure</i>	106.8	90.6	17.9	374.3	331.4	13.0

Financial performance – A review

EBIDTA:

- ✦ FY2013 EBIDTA (before exceptional items) increases by 19 % at ₹ 306.7 crore as compared to ₹ 258.6 crore in FY2012
- ✦ Q4 FY2013 EBIDTA (before exceptional items) was at ₹ 72.9 crore as compared to ₹ 76.9 crore in Q4 FY2012
 - Delayed shipments of Q3FY2013 contribute to higher volumes in Q4FY2013

Particulars (₹ crore)	Q4 FY2013	Q4 FY2012	Shift (%)	FY2013	FY2012	Shift (%)
EBIDTA before exceptional items	72.9	76.9	(5.1)	306.7	258.6	18.6
EBIDTA Margins (%)	16.3	18.9	NA	18.9	18.2	NA

Financial performance – A review

- ☀ FY2013 Profit Before Tax higher by 12.8% at ₹ 180.5 crore as compared to ₹ 160.0 crore in FY2012
- ☀ Q4 FY2013 Profit Before Tax at ₹ 41.4 crore as compared to ₹ 48.4 crore in Q4 FY2012

Particulars (₹ crore)	Q4 FY2013	Q4 FY2012	Shift (%)	FY2013	FY2012	Shift (%)
PBT	41.4	48.4	(14.6)	180.5	160.0	12.8
PAT	35.1	5.0	604.2	105.8	62.3	69.8
PAT Margins (%)	7.9	1.2	NA	6.5	4.4	NA
EPS (Basic) not annualised	8.8	1.2	615.4	26.5	15.3	72.6
EPS (Diluted) not annualised	8.8	1.2	615.4	26.5	15.3	72.6

Segmental results – Graphite electrodes

- ✶ FY2013 revenue higher by 13.8% at ₹ 1,587.2 crore as compared to ₹ 1,394.7 crore in FY2012
- ✶ Q4 FY2013 revenues were at ₹ 438.3 crore as compared to ₹ 400.3 crore in Q4 FY2012
 - PBIT was at ₹ 36.0 crore from ₹ 48.5 crore on account of lower realisations following acute weakness in the steel industry

Particulars (₹ crore)	Q4 FY2013	Q4 FY2012	Shift (%)	FY2013	FY2012	Shift (%)
Revenues	438.3	400.3	9.5	1,587.2	1,394.7	13.8
PBIT	36.0	48.5	(25.7)	147.1	141.8	3.7
Return on sales (%)	8.2	12.1	NA	9.3	10.2	NA
Capital Employed	1,115.6	936.2	19.2	1,115.6	936.2	19.2

Segmental results - Power

- ✴ 3 power plants under operation with a total capacity of around 77 MW provide reliability and self-sufficiency
 - Two thermal power plants at Mandideep (30 MW+33 MW)
 - Hydroelectric power plant at Tawa (13.5 MW)
- ✴ Margins higher as compared to corresponding period
- ✴ Performance influenced by:
 - Higher contribution from the hydel power plant at Tawa
 - Better availability of linkage coal

Particulars (₹ crore)	Q4 FY2013	Q4 FY2012	Shift (%)	FY2013	FY2012	Shift (%)
Revenue	66.7	54.2	22.9	248.4	216.4	14.7
PBIT	19.9	9.4	111.3	89.7	49.3	82.0
<i>Return on sales (%)</i>	29.9	17.4	NA	36.1	22.8	NA
Capital Employed	200.0	216.7	(7.7)	200.0	216.7	(7.7)



In summary

☀ **Three speed economic recovery underway:**

- Growth in emerging market and developed economies forecasted at 5.3 percent in 2013; growth in Asia is expected to pick up in the current year, driven largely by continued robust domestic demand
- Growth in the United States is forecast to be 1.9 percent in 2013 and 3.0 percent in 2014; lower growth rate but achievable in the face of overly strong, fiscal consolidation of about 1.8 percent of GDP
- Growth in the euro area is forecast to be –0.3 percent in 2013 and 1.1 percent in 2014; dominated by weakness in the core

(Source: IMF World Economic Outlook)

☀ **Margin outlook stable in light of softness in environment**

- Higher cost efficiencies to support profitability
- Needle coke and Indian coke pricing expected to be favourable; expect to benefit from low costing of needle coke from H2 FY2013 onwards
- 100% captive power to support contained cost



In summary

☀ **Improvement in operational efficiency will be key to enhancing performance**

- Process and technological enhancements to assist in aligning costs to softer demand and pricing environment
- To be supported by stable outlook on volumes

☀ **Model remains focused and robust**

- HEG has secured its place as the world's largest single site producer of graphite electrodes
- Economies of scale and low cost production are the key points by which the Company benefits
- Key raw materials requirement is secured
 - ◉ Needle coke available in adequate supplies
 - ◉ Even at expanded capacity levels, captive power continues to be sufficient



Disclaimer

Statements in this document pertaining to future status, events, or circumstances, including but not limited to statements about plans and objectives, potential product characteristics and uses, product sales potential and target dates for product launch are forward-looking statements based on estimates and the anticipated effects of future events on current and developing circumstances. Such statements are based on management's current expectations and are subject to risks, uncertainty and changes in circumstances, which may cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. HEG Limited is under no obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events or otherwise. The Company may, from time to time, make additional written and oral forward looking statements, including statements contained in its filings with the regulatory bodies and reports to shareholders



About HEG Limited

HEG Limited, a listed company of the LNJ Bhilwara Group, was established in 1977 in technical and financial collaboration with Societe Des Electrodes Et Refractaires Savoie (SERS), a subsidiary of Pechiney of France.

The Company has recently expanded Graphite Electrode capacities from 66,000 MT to 80,000 MT, consolidating its position as the largest single-site integrated graphite electrode facility in the world. The graphite electrode plant is located at Mandideep, near Bhopal.

The Company also operates three power generation facilities with a total rated capacity of about 77 MW. The hydroelectric power plant at Tawa near Itarsi, District Hoshangabad (Madhya Pradesh) has a rated capacity of 13.5 MW, while two captive thermal power plants located at Mandideep (Madhya Pradesh) have rated capacities of 30 MW and 33 MW respectively.

HEG Limited is a part of the ₹ 5,000 crore LNJ Bhilwara Group, which is a diversified conglomerate with business interests in power, graphite electrodes, textiles and IT services sector. The Group has 5 listed companies and wide range of stakeholders.



About Graphite electrodes

Graphite electrodes find their biggest industrial use in Electric Arc Furnaces (EAF) used in steel plants to melt steel scrap. The demand for graphite electrodes is therefore sensitive not to steel prices but to steel production volumes through the EAF route, which accounts for 31% of the world's steel production.



Contact details

For further information, please contact:

**Manvinder Singh Ajmani – Head
Corporate Strategy**

HEG Limited

Ph: +91 120 439 0224

Fax: +91 120 254 1575

Email: manvinder.ajmani@Injbhilwara.com

Raju Rustogi – CFO

HEG Limited

Ph: +91 120 244 4541

Fax: +91 120 254 1575

Email: r.rustogi@Injbhilwara.com

Janki Dholakia

Citigate Dewe Rogerson

Ph: +91 22 6645 1217

Fax: +91 22 6645 1213

Email: janki@cdr-india.com

Siddharth Rangnekar

Citigate Dewe Rogerson

Ph: +91 22 6645 1209

Fax: +91 22 6645 1213

Email: siddharth@cdr-india.com

