



HEG/SECTT/2023

21<sup>st</sup> August, 2023

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**Sub: Transcript of Earnings Conference Call on Q1 FY24 of HEG Limited**

Dear Sir/Madam,

Please refer to our Earnings Conference Call scheduled on 18<sup>th</sup> August, 2023 intimated vide our letter dated 14<sup>th</sup> August, 2023. Please find enclosed the transcript of the said Earnings Conference Call.

The said transcript is also available under the Investors Section of the website of the Company i.e [www.heg ltd.com](http://www.heg ltd.com).

This is for your kind information and records.

Thanking You,

Yours faithfully,  
For **HEG Limited**

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“HEG Limited  
Q1 FY2024 Earnings Conference Call”

August 18, 2023



**ANALYST: MR. NAVIN AGRAWAL – HEAD INSTITUTIONAL SECURITIES - SKP SECURITIES LIMITED**

**MANAGEMENT: MR. RAVI JHUNJHUNWALA – CHAIRMAN, MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – HEG LIMITED**

**MR. RIJU JHUNJHUNWALA – VICE CHAIRMAN – HEG LIMITED**

**MR. MANISH GULATI – EXECUTIVE DIRECTOR – HEG LIMITED**

**MR. OM PRAKASH AJMERA – GROUP CHIEF FINANCIAL OFFICER – HEG LIMITED**

**MR. GULSHAN KUMAR SAKHUJA – CHIEF FINANCIAL OFFICER – HEG LIMITED**



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**Moderator:** Good day ladies and gentlemen. Welcome to the HEG Limited's Q1 FY2024 Earnings Conference Call organized by SKP Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the management's opening remarks. Should you need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Navin Agrawal, Head Institutional Equities at SKP Securities Limited. Thank you and over to you Sir!

**Navin Agrawal:** Good afternoon ladies and gentlemen. It is my pleasure to welcome you on behalf of HEG Limited and SKP Securities to this financial results conference call with the leadership team at HEG Limited. We have with us Mr. Ravi Jhunjhunwala – Chairman, Managing Director and CEO and Mr. Riju Jhunjhunwala – Vice Chairman along with their colleagues Mr. Manish Gulati – Executive Director, Mr. Om Prakash Ajmera Group CFO and Mr. Gulshan Kumar Sakhuja CFO. We will have the opening remarks from Mr. Jhunjhunwala followed by Q&A session. Thank you and over to you RaviJi!

**Ravi Jhunjhunwala:** Thank you Navin. Friends good afternoon and welcome to our financial results conference calls for Q1 FY2023-2024. As per World Steel Association's data steel production in the first six months of the calendar year 2023 that was January-June was lowered by about 4% at 408 million tonnes as against 425 million tonnes in the first half of 2022 and it is expected to remain subdued in the rest of the next six months as well. However, World Steel Association's outlook projects that steel demand would rebound in the next few quarters and is likely to increase by about 4% in 2024. It has been known for quite some time that steel industry alone accounts for about 7% of the global carbon emissions in the world and it also accounts for about 23% of industrial carbon emissions. The western world especially the US and the Western Europe are making serious efforts to decarbonize the steel industry in the near future. Steel produced through blast furnace emits about four times more carbon from the same steel produced through electric arc furnace. In this backdrop, the western world's steel production through electric arc furnace minus China it used to be about 44% in 2015 has now already reached about 50% in 2022 going up by about 78 million tonnes from 357 million in 2015 to 435 million tonnes in 2022. Several steel bodies in the world expect electric arc furnace production minus China to further increase by about 100 million tonnes by 2030 taking the electric arc furnace production from its current level of 435 million tonnes to 535 million tonnes which means an additional demand of graphite electrode to the extent of anywhere in the region of 160 to 190000 tonnes. Similarly OECD to expect new capacities of US minus China of about 53 million tonnes to be operational by 2026 and another about 45 million tonnes by conversions of blast furnaces into electric arc



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furnaces by 2030. So, this again matches with the WSA figure of about 100 million tonnes of new electric arc furnaces coming into operation in the next 6-7 years. This would mean a substantial increase in demand of our products all over the world and since we have been exporting about two thirds of our production to some 30 plus countries for a very long time, we are well set to meet this demand from HEG. We are closely tracking about 60 million tonnes of new electric arc furnace capacities between Europe and US of which about 7 million tonnes have already started and another 18 million tonnes are likely to be in operation in the next two years and the rest between 2026 and 2029-2030. In this backdrop our timely decision to expand our capacity by about 20000 tonnes per annum is likely to yield good results. While we remain solidly upbeat about the continued growth of electric arc furnace steel production in the coming decade resulting into a continuous rise in electrode demand at present we are seeing a period of subdued steel production in the world over due to several global factors, which all of us are aware, which is likely to continue through the end of 2023 resulting into subdued demand for our products for the next few quarters.

Now turning to China, China which only produces about 5% of its steel through electric arc furnace say about five years ago is currently at the level of 12% and is aiming to reach 20% by 2025. We believe electric arc furnace will grow at a CAGR of about 3 to 3.5% in the next decade, which will directly translate into a substantial increase in graphite electrode demand. All this sounds very exciting for us at HEG as no new capacities in the electrode industry have been announced by any other graphite company in the western world.

Now a word about our expansion, production of graphite electrodes as you know is a long process which entails five different processes. Four of these are already in operations for the last few months and the last one is under trial and is likely to go on stream fairly soon. In our expansion we have used some of the best and most modern equipments and technologies which we believe will take us to the next level of enhanced capabilities in terms of quality as well as cost competitiveness. We at HEG had been operating the world's largest plant under one roof with a capacity of 80000 tonnes for a long time and with our expansion to 100000 tonnes very soon going to be operational we are in a strong position to take advantage of the growth in demand of our products.

Now a couple of words about our new subsidiary TACC. Our new project of graphite anode is progressing well and we have started our pilot plant which will facilitate trials. The land acquisition for this project is already achieved and we expect to complete the first phase of the project to make about 10000 tones of anode by mid 2025.



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Friends in conclusion our Q1 2023-2024 has been pretty satisfactory given the very tough market conditions. The next two, three quarters may see margins coming under some pressure, but we are fully confident of the demands coming back from 2024 onwards and we will take full advantage of our expanded capacity and competitive costs. We have all the technological capabilities, operational efficiencies, and market reach to take our company forward and to succeed and thrive in all emerging situations to create long-term value for our shareholders. With these words I will now pass the floor to our CFO, Gulshan who will take us through the financial figures following that Riju, our Vice Chairman; Manish, our Executive Director and Gulshan will all be very delighted to address any queries you may have regarding electrodes and graphite anodes. Thanks and over to Gulshan!

**Gulshan Sakhuja:**

Thank you Sir! Good afternoon friends. I will now briefly take you through the company's operating and financial performance for the quarter ended June 30, 2023. For the quarter ended June 30, 2023 HEG recorded revenue from operations of Rs.671 Crores as against 722 Crores in a corresponding quarter of the previous financial year. During the quarter ended June 30, 2023 the company delivered EBITDA of Rs.178 Crores as against 205 Crores in the corresponding quarter of the previous year. The company on a standalone basis recorded a net profit after tax of Rs.98 Crores in Q1 FY2024 as against 134 Crores in the corresponding quarter of the previous year and on a consolidated basis the net profit after tax is Rs.139 Crores in Q1 FY2024 as against 159 Crores in the corresponding quarter of the previous FY. The company is long term debt free and had a treasury size of nearly 980 Crores as on June 30, 2023. Now to take out more questions from the participants the detailed presentation has been uploaded on the company's website and on the stock exchange. Now we would like to address any questions or queries you have in your mind. Thank you. Over to Navin!

**Moderator:**

Thank you very much Sir. We will now begin the question and answer session. The first question is from the line of Amol Rao from Kitara Capital. Please go ahead.

**Amol Rao:**

Good afternoon Sir. Sir just a clarification I thought you were expecting to commission our capacity at the end of June a slight delay understandable but what is the technicality to which the delay is happening?

**Ravi Jhunjunwala:**

See as I said out of five operations four have been in operation so we are getting the additional tonnages from those four but obviously if the fifth one is not yet commissioned to that extent I cannot say that we can produce 100000 tonnes as of today but it has been a very small breakdown of a very small piece which is being replaced and it is coming from Bengaluru and it is a matter of another maximum three to four weeks and by end of next month we should be in business.



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**Amol Rao:** I guess there is no harm or foul because anyway the markets are a little sluggish so no hurry to commence?

**Ravi Jhunjhunwala:** Exactly.

**Amol Rao:** Sir one more question this is more on the business practice so I realized that we were sitting on something like around 800 Crores of inventory last quarter when we spoke and the business vision is completely fine what is the call here on, do we see that demand still intact for which we had stocked up our finished goods inventory or has it been a slight change in timelines for that, if it is by how much it is?

**Manish Gulati:** See about inventories normally in our business we may take one to one-and-a-half months this is now two-and-a-half months so we do not see any big issue in liquidating that whether looking at the impending opportunity we want to have this in our hands so that when the market starts picking up we will have some additional products to sell in the market. So that inventory is not something like an unmanageable type of thing as I said from 1 to 1.5% of normal inventory it is 2.5 it is just 1% requirement.

**Amol Rao:** So basically the outlook remains the same as last quarter that we want to be stocked with finished good material whenever the demand materialize and the market it short is that correct so that understanding remains intact, right?

**Manish Gulati:** Absolutely because you see in our process electrode takes 45 days to make and the connecting pin which we call nipple takes five months so it always happens whenever there is a downside the market picks up they are very indigenous we are trying to make that product, so we are keeping that additional inventory knowingly consciously waiting for the market to turnaround.

**Amol Rao:** Fair enough Sir and I am sorry I know I am supposed to ask only two questions, but one more question on the spread our needle coke as per your analysis that needle coke and graphite electrode spread that we usually look at on a rolling three month, six month, 12 month basis, six months usually for us is that still more or less intact or has there been some contractions?

**Manish Gulati:** If I were to sell electrode today at the price which we are getting orders and the needle coke also bought today we can say the spread is intact but when the price is coming down for both electrode and needle coke, needle coke takes longer to absorb it takes longer to their price to take effect just because of inventories and our processing cycle so that way I would say that the spread is under pressure because not too much but yes it is under marginal



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pressure because electrode price as we book quarter-by-quarter when they fall needle coke funds to catch up with that.

**Amol Rao:** Correct Sir. Thank you Sir. Thank you for that clarification. Wish you all the best Sir.

**Moderator:** Thank you. The next question is from the line of Pranay Khandelwal from Alpha Invesco. Please go ahead.

**Pranay Khandelwal:** Hi thank you for the opportunity. Fairly new to the company. I wanted to understand demand supply scenario right now of needle coke as it as a critical raw material for our operation so pricing, demand, and supply of petroleum needle coke?

**Manish Gulati:** If you have been tracking our peer group nobody is running at full capacity for some reason 45-50 globally so there is abundant availability of needle coke as of now what we expect from our needle coke suppliers is to help us to get better pricing so that we are able to go through this time with decent spread. So as per your question was for availability today it is in abundant.

**Pranay Khandelwal:** Can you just give me the number if possible, just the industry supply ex of China and from China of needle coke?

**Manish Gulati:** That is fairly standard. Actually their capacities have not changed for many years. It is about I would say 650000 should be a close number of their capacities ex of China.

**Pranay Khandelwal:** 650 from rest of the world.

**Manish Gulati:** Yes.

**Pranay Khandelwal:** From China how much is that?

**Manish Gulati:** China has lot kind of coke, pitch coke, petroleum coke and several quota-based cokes so that I cannot comment, but this must be a large number.

**Ravi Jhunjunwala:** Just to add here we hardly import from China. It is not the same quality which you get from Japan or US. In our case in this business there are only three, four producers of needle coke, the quality producers and these are all based out of Europe, US, and Japan.

**Pranay Khandelwal:** Do we have any information of any new suppliers that are currently coming up in Japan or US?



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**Ravi Jhunjunwala:** I think the last new entrant in this business in the western world probably is about 70-75 years old, so in the last 60, 70-75 years I do not think there has been a new entrant anywhere in the world.

**Pranay Khandelwal:** Apart from this new entrant any capacity expansion from the existing players?

**Ravi Jhunjunwala:** They keep adding a little bit here and there, for them it is one of the byproducts so depending upon the demand they keep increasing or decreasing and replaces it by something else so it is part of a refinery process.

**Pranay Khandelwal:** I believe we must source it on contracts so what is your average tenure?

**Ravi Jhunjunwala:** It again depends on the market these days it is quarterly. It basically has to match with our selling cycle. Obviously if our selling cycle in current market conditions is quarterly we cannot buy coke for six months or nine months. We do not know the price of electrode after three months so it is not practical to buy coke for more than three months.

**Pranay Khandelwal:** Do we have any sense of the capacity utilization they might have in petroleum coke?

**Ravi Jhunjunwala:** As I said it is exactly connected to the graphite industry so if we are at 60-70% they will ideally be 60-70%.

**Pranay Khandelwal:** Does that affect our contracts in anyway like if the capacity utilization is lower, higher; is there any restructuring in our contracts?

**Manish Gulati:** No, not at all, actually you see as the Chairman said since the big players all working at around 60%, the needle coke supplier also have to align with that. They cannot be producing and adding to their inventory so they are also at a level of 60% but still we are negotiating with them or concluding contract quarter-by-quarter so there is no change in that such related to capacity utilization.

**Ravi Jhunjunwala:** Just to clarify in simple words there are only 5-6 players in the graphite industry, there are only four or five players in the needle coke industry so everything works in tandem, it is not a commodity where there are hundreds of customers or there are hundreds of suppliers everybody works in tandem with each other.

**Pranay Khandelwal:** Alright. That will be all. Thank you.

**Moderator:** Thank you. The next question is from the line of Abdulkadir Raja from Ratnabali. Please go ahead.





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**Abdulkadir Raja:** Yes good afternoon Sir. Thank you for the opportunity. Sir just two questions, first one, was there any inventory loss in this quarter and my second question is if you could just please repeat like what is the current status on the graphite anode project and like are there any other technology partners with us?

**Manish Gulati:** Not at all. You have seen our results, pretty good result. There is no inventory loss. Our pricing is higher than the cost of goods sold, so there was no question of taking any inventory loss in this Q1 or even Q2.

**Abdulkadir Raja:** Sir like wanted to know the current status on our anode project and like are there any technology partners with us?

**Riju Jhunjunwala:** No, we are more or less selected all the machines that we will be importing and..(inaudible) so there is not one technology partner because we are actually sourcing the machines from four or five different companies and these are large companies in China and the current status is that we got the land with us. It was 100 acres of land in one area and we have now applied for all the clearances like environment clearance, etc., and right now we are still quite hopeful of being on target of around Q1 2025.

**Abdulkadir Raja:** That is great. Thank you so much Sir. I will come back in the queue.

**Moderator:** Thank you. We have the next question from the line of Ajit from Nirzar Securities LLP.. Please go ahead.

**Ajit:** Thank you so much Sir. Sir I just have two questions. The first one is what is our strategic development towards energy storage solutions in medium to long terms and the second question is what is our approximate replacement cost of our assets that is it?

**Ravi Jhunjunwala:** Replacement cost of?

**Ajit:** Of the assets.

**Ravi Jhunjunwala:** You mean the current capacity of about 100000 tonnes?

**Ajit:** Yes.

**Ravi Jhunjunwala:** I can give you very, very, rough estimate because if you have been tracking our industry you will probably know that ours is the last new Greenfield plant put anywhere in the world minus China and we have been expanding from 10000 tonnes to 100000 tonnes so only based on that experience and our last experience is about 20000 tonnes where we have spent



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about 1200 Crores, so if you just multiply it by maybe five or six, so probably anywhere between 6 to 8000 Crores that will be very, very rough but again it is not going to be as accurate because ours was a Brownfield expansion and the new Greenfield plant is a total kettle of fish and I am not even sure that anybody will put up 100000 tonne plant to start with it is a fairly complicated technology and I am sure nobody is going to take a risk of putting up a 100000 tonne plant so maybe the smallest plant viable will be like 30-40,000 tonnes and probably it will cost somewhere in the region of 5000 to 6000 Crores.

**Ajit:** The first question which was towards energy storage solutions like water and strategies and is there any development in that medium to long term?

**Riju Jhunjunwala:** HEG is not participating in the energy storage solutions that we are doing from our different companies Bhilwara Energy in which HEG has 49% stake and there the things are going fairly as per target. We are actually working on four different projects totalling around 120 Crores which would close by the end of this financial year and as we are seeing more and more traction in that we are on track to be around 400 Crores of projects in this particular year.

**Ajit:** Sir why this question was that in our annual report there is one slide about powering the immobility drives so in that leveraging our expertise in graphite technology and all these things so just for that reason I was asking the question so any development in this?

**Riju Jhunjunwala:** So within HEG we are not doing anything on energy storage because over here we already have our energy coming from the state government, but outside of HEG yes we are working on different projects on energy storage.

**Manish Gulati:** In our annual report the page which you are referring to powering the e-mobility drive that is for our new subsidiary TACC in which we will be making graphite anode powder which is one of the component which goes into cell manufacturing and those cells goes into batteries which (**audio cut**) 27:51 so you are referring to that page and this is answer that we will be making graphite anode powder from the new subsidiary it is not HEG making graphite electrode.

**Ajit:** The graphite anode powder will be used in cells.

**Riju Jhunjunwala:** Lithium ion batteries.

**Ravi Jhunjunwala:** Yes lithium ion cells.

**Ajit:** Thank you so much.



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- Ravi Jhunjhunwala:** That is the process which Riju just explained should be in operation by second half of 2025.
- Ajit:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Deep Mehta from Bank of India Mutual Fund. Please go ahead.
- Deep Mehta:** Hello, Sir. Thank you for the opportunity. First question what was our capacity utilization for Q1 and how should we look at for the year ahead?
- Manish Gulati:** Closer to 90 for Q1.
- Deep Mehta:** On 80000 capacity?
- Manish Gulati:** On 80000 capacity.
- Deep Mehta:** For full financial year what are we expecting?
- Manish Gulati:** The two quarters of Q3 and Q4 as Chairman was saying (**audio cut**) 29:21 with subdued demand, so I do not know where we will finally land up with maybe around if you take this power capacity or new capacity it should be around 80-85% of 80000 tonnes.
- Deep Mehta:** Sure Sir this is very helpful and my second question is regarding needle coke as a raw material recently Reliance Industries have announced in their annual report that they have developed a technology for manufacturing needle coke so is this needle coke same as what we use in our plant and then it help us in procuring our raw material supply?
- Manish Gulati:** See Reliance has been trying, and spoke to us in the past also and also Indian Oil has been trying so we will see what eventually, there would be technology from somewhere so we will see what kind of product they eventually come with and (**audio cut**) 30:17 ultra high power grid or not that remains to be seen.
- Deep Mehta:** So as of now we do not see any clear visibility on the usage of that product?
- Manish Gulati:** No.
- Deep Mehta:** So that is all from me. Thank you very much.
- Moderator:** The next question is from the line of Pratim Roy from B&K Securities. Please go ahead.



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**Pratim Roy:** Hi Sir. Thanks for the opportunity. My first question is that right now the prices hovering around if I am not wrong \$1600 to 1700 per tonne and **(inaudible) 30:53** the fixed cost income and is there any possibility to improve further from here on?

**Manish Gulati:** Did you mean to say the needle coke pricing is around \$1500 and electrode pricing what did you say?

**Pratim Roy:** Needle coke pricing is around 1500 to 1700 and the graphite anode pricing more or less trading at a same level in the last two to three months if I am not wrong so in that scenario we can expect improvement in stake but in your earlier comment you mentioned that the spread is under pressure, margin is under pressure if you can throw some light on that specifically?

**Ravi Jhunjunwala:** As far as the price of coke is concerned you are more or less in the ballpark but your second assumption is not correct. Manish clarified that the markets are weak and we do expect the markets to remain weak for the next couple of quarters and the prices are under pressure. So, it is not correct to say that the prices are stable prices are under pressure but we still expect to maintain our capacity utilization at about 80-85%.

**Pratim Roy:** That is helpful and my second is that for the graphite anode business it will come in the second half of calendar year 2025 what is the ROE or IRR you can expect from that project and how much that can contribute to the profitability of the company if you can give some broad idea on that?

**Riju Jhunjunwala:** We cannot give absolute idea on that because we are still two years away from completing the project but the project cost should be approximately 800 Crores which will produce 10000 tonnes of anode. The current price of that being in the region of 9000 to 10000 tonne, so obviously then you can do your math based on that selling price which will take similar prices of raw material that we have in our graphite electrode price, so the IRR, etc., we are expecting 25-30% EBITDA in this particular project. We have gone \$8000 to 10000 on our selling price.

**Pratim Roy:** Thank you. That is very helpful Sir.

**Pratim Roy:** Thank you. The next question is from the line of Ajit from Nirzar Securities LLP. Please go ahead.

**Ajit:** Sir just a followup question from my side on the powder you were talking about is this a byproduct of the existing process or altogether a new product?



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**Riju Jhunjunwala:** This will be altogether a new product and the raw material will be alkali and petroleum coke and that will be of different grades of coke and our byproduct that we produce in HEG because they are different grades of raw material that we produce over there we will try to use some of those also for this particular project but as far as the basis of the project is concerned it is all on new raw material.

**Ajit:** Just a ballpark market size of this product?

**Riju Jhunjunwala:** Market size is huge. It is basically going into lithium ion battery. In India alone by 2025 we expect a demand of around 50 to 60000 tonne and by 2030 around 300000 tonne should be the demand in India based on what the cell companies have announced, companies like Amara Raja, your Reliance, Ola, and TVS Lucas, etc., who are setting up plants in India. Their requirement itself should be big and the global requirement is huge. Today also we are seeing requirement of around 300000 tonnes globally.

**Ajit:** What will be our share in this 50 to 60000 tonnes?

**Riju Jhunjunwala:** We are right now going to produce I think 10000 tonnes of material this can be either exported or used for Indian market as well.

**Ajit:** 10000 or 12000?

**Riju Jhunjunwala:** 10000.

**Ajit:** Understood. Thank you so much Sir.

**Ravi Jhunjunwala:** It is a first project of its kind in India so marketing 10000 tonnes in a market which is today 50000 tonnes is not really a problem.

**Ajit:** Great. Congratulations and all the best. Thank you.

**Moderator:** Thank you very much. That was the last question in queue. As there are no further questions I would now like to hand the conference over to Mr. Jhunjunwala for the closing remarks. Over to you Sir!

**Ravi Jhunjunwala:** Thank you friends for taking so much of interest and asking some very pointed questions. I look forward to speaking to you next time in about three months' time. Thank you.

**Moderator:** Thank you. On behalf of SKP Securities Limited that concludes the conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.