

HEG Limited

Q1 FY2012 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 of 66,000 MT being expanded to 80,000 MT per annum
- ✦ The **largest single-site graphite electrodes manufacturer in the world**
- ✦ **Captive power** generation of **77 MW** provides **reliability & self-sufficiency**



Sector Perspective

★ Steel Industry data for CY shows significant growth

- H1CY2011 world crude steel production higher by 7.6% as compared to H1CY2010
(Source: World Steel Association)

★ 2011 and 2012 expected to witness strong rise in steel demand

- 2011 world steel demand expected to increase 5.9%; 2012 growth rate to accelerate 6%
- Strong economic growth in India expected to fuel high domestic steel demand; 2011 demand to be higher by 13.3% and 2012 growth rate expected to increase by 14.3%

(Source: World Steel Association)

★ Graphite Electrodes demand based on steel produced via the EAF route

- Strong growth trajectory expected for steel produced through the EAF route
- Initial data for 2011 shows worldwide EAF steel production has come back very close to its peak levels of 2007 and expected to go beyond this in 2012

Performance Perspectives

☀ Q1 FY2012 reflects stable operational performance

- Performance for Q1 FY2012 tempered with one-off process loss in graphite electrodes. Production normalizing since then
- Annual capacity utilization rate to pick pace; expected to rise going forward
- Growing steel demand expected to support graphite electrode production
- Thermal plants operations muted on account of maintenance shut down

☀ Operational highlights

- Needle coke requirements for CY 2011 adequately booked at approximately similar levels as last year
- Adequate power supply for 80,000 tons graphite electrodes production level
 - ◉ 2 thermal power plants of total ~63.5 MW benefit from coal linkages
 - ◉ ~ 13.5 MW Hydel-power plant operations provide low-cost power
- Significant presence in international as well as domestic markets; increased focus on market expansion



Performance Perspectives

☀ **HEG consolidates position as world's largest single site plant of Graphite Electrodes**

- Phase I of capacity expansion to 80,000 MT commenced operations
- Phase II and final capacity expected to be on board by Q3 FY2012

☀ **Financial highlights**

- Realisations of graphite electrodes continue to remain muted, signs of improvement seen
- Domestic cost pressures on the rise
- Sustained efforts at optimization of borrowing arrangements leading to improvement in cost of borrowings
- Balance sheet position anchored by strength, stability and sustainability



Performance Perspectives

✧ Buy Back of Equity Shares

- ✧ Buy-back of fully paid equity shares at a price not exceeding Rs. 350 per share, announced in Q4 FY2011
- ✧ Total buyback not to exceed Rs. 67.5 crore being 9.95% of total paid up capital and free reserves as on March 31, 2010
- ✧ Last date for buyback – March 13, 2012
- ✧ Buyback completed to the extent of 60%.



Highlights

- ✧ Net Sales in Q1 FY2012 at ₹ 279.5 crore as compared to ₹ 222.1 crore in Q1 FY2011
- ✧ EBIDTA at ₹ 46.7 crore in Q1 FY2012 from ₹ 59.1 crore in Q1 FY2011
- ✧ EBIT at ₹ 33 crore in Q1 FY2012 from ₹ 43.6 crore in Q1 FY2011
- ✧ EBT at ₹ 25 crore in Q1 FY2012 from ₹ 34.5 crore in Q1 FY2011
- ✧ PAT in Q1 FY2012 reported at ₹ 19.8 crore from ₹ 26.6 crore in Q1 FY2011
- ✧ EPS (Basic) in Q1 FY2012 at ₹ 4.66 from ₹ 6.20 in Q1 FY2011

Expansions – Graphite Electrodes

- ✦ Phase I of capacity expansion from 66,000 TPA to 80,000 TPA which commenced in March, 2010 is operational
- ✦ Full capacity commercial production is expected to be operational by Q3 FY2012
 - Expansion anchored by revival in demand growth of graphite electrodes due to higher production of steel through the EAF route
- ✦ An investment of approximately ₹ 275 crore earmarked for the expansion
 - Total expansion capex being funded through debt and internal accruals
- ✦ Expansion will consolidate HEG's position as the largest single-site producer of Graphite Electrodes in the world
 - Low cost, Brownfield expansion
 - Economies of scale to improve further
- ✦ Timing of capacity expansion is well positioned for the next steel up cycle as volume visibility is strong going forward



Management views

Commenting on the results, Mr. Ravi Jhunhunwala, Chairman and Managing Director, HEG Limited, said:

" The market for steel continues to grow from strength to strength. Expectations are that steel volumes will scale record highs this year. We are seeing a commensurate increase in the requirement of graphite electrodes as there is a matching higher production of steel through the EAF route.

Barring certain production hic-cups that we saw this quarter, that we believe is one off and behind us, we are set to scale up our graphite electrode production to a high level of capacity utilization. There is good level of demand to support our targeted production going forward. We are a bit cautious about realizations where the trend has turned positive and we believe that HEG is well-positioned to capture the upside effectively.

Needle Coke which is one of our key inputs is in ample supply and we are comfortably placed to attain a volume ramp-up following our expansion. HEG as you are aware has embarked on a capacity expansion to 80,000 TPA and by the end of this fiscal we shall be able to see the full benefits of this increase in volumes. We are strengthening our quality focus and expect to deliver a suitably improved performance that is in line with our objectives. "



Management views

Commenting on the results, Mr. Manvinder Singh Ajmani, Chief Financial Officer, HEG Limited, said:

“ We faced temporary and one-off production loss this quarter which has brought down our operating performance in graphite electrodes. We have since, remedied the same and believe, going forward, HEG will continue to match its production upside to the uptick in demand.

Another factor was lower power generation due to maintenance shutdown in our captive thermal plants. This reduced the captive supply of power for production of graphite electrodes although we had uninterrupted supply from the grid. We also had to contend with higher input costs domestically which have muted our margins in graphite electrodes.

We continue to observe good traction in order book and are fully equipped to deliver a healthy capacity utilisation progressively. Adequate supplies of needle coke have been secured for the year ,encompassing the additional requirements post capacity expansion.

Our graphite electrode operation is gradually scaling up post the production loss and is moving inline with the expected increase in graphite electrode realisations. We believe that we have a strong base in the market and the expertise required to leverage upcoming growth opportunities, which would favour us in enhancing our financial performance going forward “



Financial performance – A review

Revenues:

- ☀ Net Revenues stood at ₹ 279.5 crore in Q1 FY2012 as compared to ₹ 222.1 crore in Q1 FY2011
- ☀ Visibility of improved volumes expected to support higher proposed capacity utilization rates

Particulars (₹ crore)	Q1 FY2012	Q1 FY2011	Shift (%)
Gross Revenues:	325	261.7	24
Net Revenues:	279.5	222.1	26

Financial performance – A review

Total Expenditure:

- ☀ Needle coke prices remain stable; Other raw material costs were marginally higher
- ☀ Power and fuel costs higher due to higher input prices & lower captive generation resulting in increased cost of generation
- Local input prices on the rise; trend to moderate in future
- ☀ Interest cost has reduced by 13%, due to continued optimization in borrowing arrangements

Particulars (₹ crore)	Q1 FY2012	Q1 FY2011	Shift (%)
Total Expenditure	249.1	180.5	38
<i>(Increase) / Decrease in Stocks</i>	(8.0)	(60.2)	NA
<i>Consumption of Raw Materials</i>	139.7	148.3	(6)
<i>Power & Fuel (Net of Interdivisional purchases)</i>	28.5	15.5	85
<i>Staff Cost</i>	11.31	10.2	11
<i>Other Expenditure</i>	63.8	51.2	24

Financial performance – A review

EBIDTA:

- ☀ EBIDTA stood at ₹ 46.6 crore in Q1 FY2012 from ₹ 59.1 crore in Q1 FY2011
- ☀ Margins in Q1 FY2012 shaped by lower realisations and production loss of graphite electrodes and higher domestic input costs

Particulars (₹ crore)	Q1 FY2012	Q1 FY2011	Shift (%)
EBIDTA	46.6	59.1	(21)
EBIDTA Margins (%)	17.0	27.0	NA

Financial performance – A review

- ✦ Profit Before Tax in Q1 FY2012 at ₹ 25 crore as compared to ₹ 34.5 crore in Q1 FY2011
- ✦ In Q1 FY2011, the Company reported a forex gain of ₹ 2.36 crore

Particulars (₹ crore)	Q1 FY2012	Q1 FY2011	Shift (%)
PBT	25.0	34.5	(28)
PAT	19.8	26.6	(26)
<i>PAT Margins (%)</i>	<i>7.0</i>	<i>12.0</i>	NA
EPS (Basic) not annualised	4.66	6.20	(25)
EPS (Diluted) not annualised	4.66	6.20	(25)

Segmental results – Graphite electrodes

- ✦ Revenues stood at ₹ 277.3 crore in Q1 FY2012 as compared to ₹ 208.7 crore in Q1 FY2011
 - One-off production loss moderated operating momentum
 - Volumes driven by revival in steel production through the EAF route
- ✦ Q1 FY2012 PBIT at ₹ 16.8 crore from ₹ 24.8 crore
 - Margins reflect slowdown in realisations and higher domestic input costs; realisations improving
 - Increasing power and fuel expenses have spiked production cost for the quarter; to ease going forward
 - However, volume growth expected to accrue going forward
- ✦ Order booking continues on an average of rolling 3-6 month basis
- ✦ Needle coke requirements for CY 2011 booked at almost similar rates of CY 2010; sufficient supplies available

Particulars (₹ crore)	Q1 FY2012	Q1 FY2011	Shift (%)
Revenues	277.3	208.7	33
PBIT	16.8	24.8	(32)
<i>Return on sales (%)</i>	6.0	12.0	NA
Capital Employed	878.0	641.0	37



Segmental results - Power

- ✧ Revenues were at ₹ 40.8 crore in Q1 FY2012 from ₹ 47.5 crore in Q1 FY2011
- ✧ Earnings performance influenced by
 - Higher input prices, thereby increasing generation related costs
 - Lower power generation due to maintenance shutdown
- ✧ 3 power plants under operation with a total capacity of around 77 MW
 - Two thermal power plants at Mandideep (30 MW+33 MW) – provide cost-effective and dependable power supply throughout the year; coal linkage received for thermal power plants support operations
 - Hydroelectric power plant at Tawa (13.5 MW)

Particulars (₹ crore)	Q1 FY2012	Q1 FY2011	Shift (%)
Revenue	40.8	47.5	(14)
PBIT	6.6	9.3	(29)
<i>Return on sales (%)</i>	<i>16.0</i>	<i>20.0</i>	NA
Capital Employed	228.6	234.9	(3)



In summary

- ✦ **80,000 MT capacity to be operational in Q3 FY2012; phase I operational from Q1 FY2012**
 - To augment performance once implemented
- ✦ **Graphite Electrode outlook is bright**
 - Positive performance of the Steel and EAF sector support this trend
 - Higher volumes expected going forward; capacity expansion to assist higher demand
 - Capacity utilisation expected to improve
 - Realisations improving in a graduated manner
- ✦ **Cautious cost outlook**
 - Needle coke costs are stable; supply is adequate
 - High pressure on domestic input prices; trend expected to moderate going forward
 - Lower finance costs to augment earnings



In summary

☀ **Operational performance to continue to be positive**

- Volume growth is visible

☀ **Model remains strong and robust**

- HEG has consolidated its position as the world's largest single site producer of graphite electrodes
- The Company aims to take advantage of economies of scale and low cost production
- Key raw materials – needle coke and power
 - ⦿ Needle coke requirement secured
 - ⦿ Captive power provides sufficient supply even at expanded capacity levels
- Expanding customer base aimed towards improving market share

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.

HEG Limited currently operates a 66,000 MT graphite electrode plant at Mandideep, near Bhopal. The company has earlier invested ₹ 725 crore between 2002-09 in upgrading graphite electrode production capacity and setting up its own captive power plants. The Company is expanding its capacity to 80,000 MT of Graphite Electrodes by second quarter of FY 2012 making it by far the largest single-site integrated graphite electrode facility in the world.

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.

Graphite electrodes are manufactured using a closely guarded technology which is available with only 7-8 manufacturers globally. Globally USA, Europe, Middle East and South America have an EAF share of over 60%, 40%, 80% and 60% respectively. HEG Ltd., being one of the lowest cost but high quality producers of graphite electrodes, exports over 80% of its production.



Contact details

For further information, please contact:

Manvinder Singh Ajmani – CFO

HEG Limited

Ph: +91 120 244 4541, 439 0224

Fax: +91 120 254 1575

Email: manvinder.ajmani@lnjbhilwara.com

Sameera Kedar

Citigate Dewe Rogerson

Ph: +91 22 6645 1216

Fax: +91 22 6645 1213

Email: sameera@cdr-india.com

Siddharth Rangnekar

Citigate Dewe Rogerson

Ph: +91 22 6645 1209

Fax: +91 22 6645 1213

Email: siddharth@cdr-india.com

