

HEG Limited

Q4 & FY2010 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, Ispat and Nucor Corp
- ☀ **Graphite electrodes manufacturing plant** in Mandideep – Rated capacity of 66,000 MT being expanded to 80,000 MT per annum, expansion commenced in March, 2010
- ☀ The **largest single-site graphite electrodes manufacturer**
- ☀ **Captive power** generation of **77 MW** provides **reliability & self-sufficiency**



Performance drivers

- ☀ HEG demonstrates improved earnings performance in Q4 FY2010, y-o-y
- ☀ Capacity utilization levels in graphite electrodes in the 90% plus range in Q4 FY2010
 - Annual capacity utilization in the 75% range
- ☀ Company has booked virtually 100% orders for the current quarter
 - Negotiations with customers & industry feedback supports this trend
- ☀ Expansion to 80,000 MT anchored by strong volume visibility
- ☀ Adequate needle coke supplies for existing and expanded capacities
- ☀ Captive power of total rated capacity of 77 MW to support capacity expansion of graphite business
 - Thermal power plants with rated capacities of ~63.5 MW benefit from coal linkages
 - Hydrel-power operations provide low-cost power



Highlights

- ☀ Healthy growth rate in FY2010 despite challenging market conditions
 - Net Sales at Rs.1131.4 crore , increase by 10 % from Rs.1029.0 crore
 - EBIDTA (After Exceptional Items) at Rs.354.0 crore, higher by 29 % from Rs.274.7 crore
 - EBIT (After Exceptional Items) higher by 32 % at Rs.302.0 crore from Rs.228.0 crore
 - EBT (After Exceptional Items) rises 50 % to Rs.242.32 crore from Rs.161.39 crore
 - PAT reported at Rs.171.06 crore, a growth of 60% to Rs.171.06 crore from Rs.106.99 crore
 - EPS (Basic) at Rs.41.10 from Rs.24.36
 - Board recommends dividend of 100% (Rs. 10 per equity share of Rs. 10 each) for FY2010



Graphite electrodes

- ☀ Order booking is being done on a rolling 3-6 month basis
- ☀ Q4 FY2010 realizations have witnessed moderation
- ☀ Rupee appreciation a cause for concern
- ☀ Needle coke booked for the whole year at fixed prices and sufficient needle coke available for this year
- ☀ Other Raw Materials prices show a bit of uptrend
- ☀ In FY2011 the Company aims to maintain capacity utilization at 80% – 90% levels of the existing installed capacities

Particulars	Q4 FY2010	Q4 FY2009	FY2010	FY2009
Sales (Rs. crore)	321.52	251.53	1062.76	1024.08



Power

- ☀ 3 power plants under operation with a total capacity of around 77 MW
 - Thermal power plant at Mandideep (30 MW) – provides cost-effective and dependable power supply throughout the year
 - New thermal power plant (33 MW) – has stabilised and is contributing healthily since commissioning in May 2009
 - Hydroelectric power plant at Tawa (13.5 MW) – power generation was healthy due to better rainfall in the catchment leading to contained energy costs
 - Coal linkage received for thermal power plants

- ☀ Earnings in the power division witnessed strong performance on account of the second thermal plant coming into operation

Particulars	Q4 FY2010	Q4 FY2009	FY2010 *	FY2009
Sales (Rs. crore)	54.55	28.41	183.83	100.79

* There was a maintenance shutdown of the 30 MW thermal power plant for 15 days in August '09



Other Key perspectives

☀ During FY 2010, HEG converted FCCBs worth USD 7 million. Of the original issue value of 28.75 million:

- FCCBs converted so far is USD 27.70 million
- FCCBs bought back is USD 3 million
- Outstanding FCCBs worth USD 1.05 million as at 31-03-2010
- In April 2010, FCCBs amounting to USD 1 million converted
- Outstanding FCCBs are now 0.05 million



Expansions – Graphite Electrodes

- ✿ Capacity expansion from 66,000 TPA to 80,000 TPA has commenced in March, 2010
 - Expansion anchored by revival in demand growth of graphite electrodes and is to be supported by increased demand of steel produced through the EAF route
- ✿ Expansion is expected to be completed within 18 months
- ✿ An investment of approximately Rs. 225 crore earmarked for the expansion
- ✿ 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
- ✿ Expansion to be done over 18 months period, through a combination primarily comprising internal accruals balanced with limited debt
- ✿ Timing of capacity expansion is well positioned for the next up cycle



Management views

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

“HEG has shown encouraging performance in a challenging environment. We have better visibility of performance given the recovery seen in the steel industry. The Graphite Electrode volumes are witnessing good traction in demand and HEG has commenced an expansion initiative, to enhance capacities to 80,000 MT per annum to benefit from this expected trend. The Company is adequately protected on chief raw material and power supply, at existing and enhanced capacities. With the given expansion we are looking to consolidate the advantage of being the largest single site graphite electrode producer. We are confident of our execution capabilities and expect to complete the expansion with an attractive payback period.”

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

“At HEG we have built world class capabilities and capacities and strive to improve further in this direction. During the last quarter HEG has seen a balanced performance with capacity utilization improving strongly. We remain supported by adequate needle coke supplies. The focus at our end remains on supporting cost efficiency measures so as to bring further improvement in contribution to earnings. Our captive power set-up will continue to back the enhancement in the graphite electrode capacities. We have made long strides towards operational excellence and continue to aim for the better overall performance”



Financial performance – A review

Revenues:

- ✳ Revenues stood at Rs. 335.81 crore in Q4 FY2010 on account of stronger volumes in graphite electrode and power division
- ✳ Realizations muted in Q4 FY2010
- ✳ Rupee appreciation subdued realizations further
- ✳ Visibility of improved volumes in Q1 FY2011 will result in better capacity utilization y-o-y

Particulars (Rs. crore)	Q4 FY2010	Q4 FY2009	Shift (%)	FY2010	FY2009	Shift (%)
Gross Revenues:	375.97	283.59	33	1268.45	1,149.94	10
<i>Domestic</i>	<i>113.17</i>	<i>70.32</i>	<i>61</i>	<i>461.17</i>	<i>317.59</i>	<i>45</i>
<i>Exports</i>	<i>262.80</i>	<i>213.27</i>	<i>23</i>	<i>807.27</i>	<i>832.35</i>	<i>(3)</i>
Net Revenues:	335.81	253.65	32	1131.40	1029.00	10



Financial performance – A review

Total Expenditure:

- ☀ Power and fuel costs remain stable at higher capacity utilization levels in the graphite electrodes unit given the additional power from the new 33 MW captive power plant and better generation of power from the hydel unit
- ☀ Needle coke prices remain stable whereas other raw material costs were higher

Particulars (Rs. crore)	Q4 FY2010	Q4 FY2009	Shift (%)	FY2010	FY2009	Shift (%)
Total Expenditure	263.54	161.16	64	788.78	652.89	21
<i>(Increase) / Decrease in Stocks</i>	<i>15.42</i>	<i>(9.43)</i>	<i>263</i>	<i>7.03</i>	<i>(56.20)</i>	<i>113</i>
<i>Consumption of Raw Materials</i>	<i>159.56</i>	<i>83.39</i>	<i>91</i>	<i>469.96</i>	<i>364.89</i>	<i>29</i>
<i>Power & Fuel (Net of Interdivisional purchases)</i>	<i>14.07</i>	<i>14.30</i>	<i>(2)</i>	<i>52.39</i>	<i>77.33</i>	<i>(32)</i>
<i>Staff Cost</i>	<i>9.59</i>	<i>9.47</i>	<i>1</i>	<i>39.02</i>	<i>37.08</i>	<i>5</i>
<i>Other Expenditure</i>	<i>64.91</i>	<i>63.43</i>	<i>2</i>	<i>220.38</i>	<i>229.09</i>	<i>(4)</i>



Financial performance – A review

EBIDTA:

- ✿ EBIDTA for the year at Rs. 354.00 crore from Rs. 274.74 crore last year up 29%
- ✿ Margins in Q4 somewhat muted on account of lower realizations, Rupee appreciation and increase in other raw material costs
- ✿ Interest cost has reduced by 11% annually, given repayment of debt, negotiation of term rates to fixed lower levels and lower working capital costs

Particulars (Rs. crore)	Q4 FY2010	Q4 FY2009	Shift (%)	FY2010	FY2009	Shift (%)
EBIDTA	77.39	71.04	9	354.00	274.74	29
EBIDTA Margins (%)	23.05	28.01	(18)	31.29	26.70	17



Financial performance – A review

- ☀ Q4 FY2010 Profit Before Tax strong at Rs. 52.98 crore as compared to Rs. 38.11 crore last year

Forex:

- ☀ In Q4 FY2010, the Company reported a forex gain of Rs. 1.89 crore, reflected as Exceptional Items while in Q4 FY2009 the Company reported a forex loss of Rs. 28.70 crore.
- ☀ In FY 2010 the Forex Gain stood at Rs.4.80 crore as against a loss of Rs. 118.32 crore in FY 2009.

Particulars (Rs. crore)	Q4 FY2010	Q4 FY2009	Shift (%)	FY2010	FY2009	Shift (%)
PBT	52.98	38.11	39	242.32	161.39	50
PAT	39.26	24.13	63	171.06	106.99	60
PAT Margins (%)	11.69	10		15.12	10.40	
EPS (Basic) not annualised	9.29	5.60	66	41.10	24.36	69
EPS (Diluted) not annualised	9.25	5.60	65	40.91	24.36	68



Segmental results – Graphite electrodes

- ☀ Revenues in Q4 FY2010 were higher by 28% at Rs. 321.52 crore
 - This was on the back of higher volume sales
- ☀ Q4 FY2010 PBIT stood at Rs. 45.33 crore
 - Prices under pressure
 - However, volumes to increase from current levels
 - Margins are likely to be under pressure due to moderation in realizations

Particulars (Rs. crore)	Q4 FY2010	Q4 FY2009	Shift (%)	FY2010	FY2009	Shift (%)
Revenues	321.52	251.53	28	1062.76	1,024.08	4
PBIT	45.33	52.16	(13)	252.41	195.95	29
Return on sales (%)	14	21		24	19	
Capital Employed	633.53	639.98		633.53	639.98	

Segmental results - Power

- ☀ Captive power generation of about 77 MW provides reliability & self-sufficiency
- ☀ Power realizations for Q4 FY2010 were subdued leading to lower earnings – however, the averaged-out realizations for FY2010 remained healthy
- ☀ The 13.5 MW hydel power plant in Tawa operated steadily in FY2010, given adequate rainfall in the catchment area
- ☀ The 33MW thermal power plant has commenced operations since May'09

Particulars (Rs. crore)	Q4 FY2010	Q4 FY2009	Shift (%)	FY2010	FY2009	Shift (%)
Revenue	54.55	28.41	92	183.83	100.79	82
PBIT	13.24	3.37	293	41.86	24.11	74
Return on sales (%)	24	12		23	24	
Capital Employed	218	219		218	219	



In summary

- ✿ Outlook for Graphite Electrodes to be guided by higher volumes
- ✿ Volumes expected to drive earnings growth
- ✿ Company to maintain a healthy run rate of capacity utilization of 80% - 90% in FY2011
- ✿ Muted realizations, Rupee appreciation and movement in other raw material costs may influence performance going forward
- ✿ Graphite Electrode order book visibility assured for the current quarter
 - Booking is done on a rolling basis across sector, with a visibility of 3 - 6 months
- ✿ Fresh expansion to 80,000 MT per annum to augment production ahead of demand uptrend
 - Brownfield expansion will enable significant earnings upside during next uptick in the sector
- ✿ HEG is well placed with economical and adequate captive power resource even for expanded graphite electrode production
- ✿ Needle Coke pricing and availability to remain assured given strong relationships with vendors



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 Rs. 725 crore between 2002-09 in upgrading graphite electrode production capacity and setting up its own captive power plants.

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 Rs 3,600 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.



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