

HEG Limited

Q4 & FY2011 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**

- Q1 CY2011 world crude steel production higher by 8.8% as compared to Q1 2010

(Source: World Steel Association)

✦ **2011 and 2012 expected to witness strong rise in steel demand**

- 2011 world steel demand forecasted to increase by 5.9%; 2012 growth rate to accelerate by 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

☀ **FY2011 reflects strong operational performance**

- Performance for FY2011 equated with sustained operational growth
- Annual capacity utilization rate at high eighties levels; expected to rise going forward
- Growing steel demand expected to stimulate graphite electrode production

☀ **Operational highlights**

- Needle coke requirements for CY 2011 adequately booked at approximately similar levels as last year
- Adequate power requirements 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
- Domestic cost pressures on the rise
- Healthy cash flows generated from operations
- 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 Q4FY2011
- Total buyback not to exceed ₹ 67.5 crores being 9.95% of total paid up capital and free reserves as on March 31, 2010
- Last date for buyback – March 13, 2012

✦ Interim Dividend

- Board declared an interim dividend of 50% (Rs.5 per equity share of Rs.10 each)

✦ Final Dividend

- Board recommends final dividend of 50% (Rs.5 per equity share of Rs.10 each)



Highlights

- ✧ Net Sales in FY2011 at ₹ 1,113.7 crore as compared to ₹ 1,131.4 crore in FY2010
- ✧ EBIDTA at ₹ 262.0 crore in FY2011 from ₹ 354.0 crore in FY2010
- ✧ EBIT at ₹ 204.7 crore in FY2011 from ₹ 301.6 crore in FY2010
- ✧ EBT at ₹ 168.1 crore in FY2011 from ₹ 242.3 crore in FY2010
- ✧ PAT in FY2011 reported at ₹ 128.9 crore from ₹ 171.1 crore in FY2010
- ✧ EPS (Basic) in FY2011 at ₹ 30.1 from ₹ 41.1 in FY2010
- ✧ Expansion of Graphite Electrode capacities from current rated 66,000 TPA to 80,000 TPA is on schedule and partly commissioned



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 Q3FY2012
 - 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 Jhunjunwala, Chairman and Managing Director, HEG Limited, said:

“Over the last year, the steel sector has delivered impressive growth rates, thereby supporting operations in the EAF sector. The growth in the sector coupled with the challenges faced during the fiscal year has resulted in sustained operational performance of HEG Limited.

I am pleased to share that the Phase I of our graphite electrodes capacity expansion is operational and the final full capacity expansion is expected to be operational by Q3FY2012. Focusing on increasing the international footprint, HEG has been relentlessly working towards expanding capacities in line with expected growth in demand for graphite electrodes. This initiative, in turn aims at further development of the order book and achieving the planned growth trajectory.

A strong business model, sustainable operational performance, continued focus on growth opportunities and a well –established and experienced organization, provides us the necessary platform to enhance revenue and profitability in the future, thereby increasing stakeholders value going forward.”



Management views

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

“For the current fiscal, operationally, both our segments, graphite electrodes and power, delivered sustainable performance.

Annual capacity utilisation rate has been maintained in the high 80s’, thereby reflecting our efforts towards the Company’s growth strategy. Our expanding order book and the rate of execution are supported by an uptick in demand. We have secured adequate needle coke supplies for the current year, bearing in mind the additional requirements post capacity expansion.

Power being a key raw material, the power division remains a strong thrust area for HEG Limited. The captive supply of power will be sufficient even at expanded production levels of graphite electrodes.

Over most part of the year, we continued to face challenges of higher input costs and muted realizations in both, the graphite electrodes and power divisions. However the scenario is expected to improve going forward.

Overall, we are prioritizing on improving the financial performance, and we believe that we are well positioned to leverage growth opportunities which should assist us to achieve our goals”



Financial performance – A review

Revenues:

- ☀ Revenues stood at ₹ 281.6 crore in Q4FY2011 as compared to ₹ 335.8 crore in Q4FY2010
- ☀ Visibility of improved volumes will support higher proposed capacity utilization rates

Particulars (₹ crore)	Q4 FY2011	Q4 FY2010	Shift (%)	FY2011	FY2010	Shift (%)
Gross Revenues:	333.9	381.5	(13)	1,299.3	1,268.5	2
Net Revenues:	281.6	335.8	(16)	1,113.7	1,131.4	(2)



Financial performance – A review

Total Expenditure:

- ☀ Local input prices on the rise; trend to continue going forward
- ☀ Needle coke prices remain stable; Other raw material costs were marginally higher
- ☀ Power and fuel costs higher due to higher input prices, resulting in increased cost of generation
- ☀ Interest cost has reduced by 38%, due to continued optimization in borrowing arrangements

Particulars (₹ crore)	Q4 FY2011	Q4 FY2010	Shift (%)	FY2011	FY2010	Shift (%)
Total Expenditure	223.4	259.9	(14)	866.6	784.0	11
<i>(Increase) / Decrease in Stocks</i>	(42.5)	15.4	NA	(117.7)	7.0	NA
<i>Consumption of Raw Materials</i>	162.3	159.6	2	613.0	470.0	30
<i>Power & Fuel (Net of Interdivisional purchases)</i>	16.8	14.1	19	68.3	52.4	30
<i>Staff Cost</i>	13.1	9.6	37	44.1	39.0	13
<i>Other Expenditure</i>	73.6	61.3	20	259.0	215.6	20



Financial performance – A review

EBIDTA:

- ☀ EBIDTA stood at ₹ 65.7 crore in Q4FY2011 from ₹ 77.4 crore in Q4FY2010
- ☀ Margins in Q4FY2011 shaped by lower realisations of graphite electrodes, higher domestic input costs and improved power realisations

Particulars (₹ crore)	Q4 FY2011	Q4 FY2010	Shift (%)	FY2011	FY2010	Shift (%)
EBIDTA	65.7	77.4	(15)	262.0	354.0	(26)
EBIDTA Margins (%)	23	23	NA	24	31	NA

Financial performance – A review

- ✱ Profit Before Tax in Q4FY2011 at ₹ 42.7 crore as compared to ₹ 53.0 crore in Q4FY2010
- ✱ In Q4 FY2011, the Company reported a forex gain of ₹ 10.0 crore

Particulars (₹ crore)	Q4 FY2011	Q4 FY2010	Shift (%)	FY2011	FY2010	Shift (%)
PBT	42.7	53.0	(19)	168.1	242.3	(31)
PAT	34.4	39.3	(12)	128.9	171.1	(25)
PAT Margins (%)	12	12	NA	12	15	NA
EPS (Basic) not annualised	8.0	9.3	(14)	30.1	41.1	(27)
EPS (Diluted) not annualised	8.0	9.3	(14)	30.1	40.9	(26)



Segmental results – Graphite electrodes

- ✧ Revenues stood at ₹ 275.1 crore in Q4FY2011 as compared to ₹ 321.5 crore in Q4FY2010
 - Volumes driven by revival in steel production through the EAF route
- ✧ Q4 FY2011 PBIT at ₹ 32.3 crore from ₹ 48.9 crore
 - Margins reflect moderation in realisations and higher domestic input costs
 - However, volume growth expected 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)	Q4 FY2011	Q4 FY2010	Shift (%)	FY2011	FY2010	Shift (%)
Revenues	275.1	321.5	(14)	1,079.4	1,062.8	2
PBIT	32.3	48.9	(33)	155.2	256.0	(39)
Return on sales (%)	12	15	NA	14	24	NA
Capital Employed	779.8	633.5	23	779.8	633.5	23



Segmental results - Power

- ✧ Revenues were marginally lower by 2% at ₹ 53.7 crore in Q4FY2011 from ₹ 54.6 crore in Q4FY2010
- ✧ Earnings performance influenced by
 - Higher input prices, thereby increasing generation related costs
 - Higher realisations resulting in higher earnings
 - Stable performance of the hydro power plant; currently sufficient water reserves in the catchment area
- ✧ 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)	Q4 FY2011	Q4 FY2010	Shift (%)	FY2011	FY2010	Shift (%)
Revenue	53.7	54.6	(2)	196.7	183.8	7
PBIT	18.7	13.2	41	46.5	41.9	14
Return on sales (%)	35	24	NA	24	23	NA
Capital Employed	225.8	218.0	4	225.8	218.0	4



In summary

☀ **80,000 MT capacity to be operational in Q3 FY2012; phase I operational from Q4FY2011**

- 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

☀ **Cautious cost outlook**

- Needle coke costs are stable; supply is adequate
- High pressure on domestic input prices; trend to continue 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.



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