

HEG Limited

Q3&9M 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

☀ **World Steel Production at record levels in 2010**

- World crude steel output higher by 15% as compared to 2009; driven by Asian economies.
- Europe and USA produce large steel volumes through EAF route; production continues to show gradual increase; Asia to lead in new EAF capacity creation henceforth

☀ **EAF Route steel production supports Graphite Electrodes production**

- EAF steel production volumes witnessing sustained improvement
- EAF route production outlook is positive

Performance Perspectives

- ✦ **Operational performance is robust ; trend to continue going forward**
 - Capacity utilisation at 85-90% plus range; volume visibility for the rest of the year is encouraging on the back of improved steel demand
 - Capacity utilization expected to further strengthen going forward
 - In concurrence with on going negotiations and volume commitments from customers & feedback from industry
- ✦ **Adequate needle coke supplies envisaged for current and expanded capacities**
 - No major cost inflation foreseen
 - Negotiations with suppliers for CY2011 requirement, in process
- ✦ **Captive power of 77 MW to be sufficient even at expanded capacities**
 - 2 thermal power plants of total ~63.5 MW benefit from coal linkages
 - Hydel-power operations provide low-cost power
- ✦ **Expansion to 80,000 MT proceeding well and on schedule.**

Performance Perspectives

✦ Financial performance considers

- Muted graphite electrode and power realisations

✦ Financial performance is encouraging given

- Continued steady cash flows from operations; stability of business
- Healthy earnings performance given stable graphite electrode realisations balanced by healthy volume growth
- Fiscal prudence at the corporate level leading to improvement in cost of borrowings

Highlights

- ✿ Revenues in Q3FY2011 at ₹ 310.3 crore as compared to ₹ 290.3 crore in Q3FY2010
- ✿ EBIDTA at ₹ 72.7 crore in Q3FY2011 from ₹ 95.8 crore in Q3FY2010
- ✿ EBIT at ₹ 58.4 crore in Q3FY2011 from ₹ 82.5 crore in Q3FY2010
- ✿ EBT at ₹ 48.4 crore in Q3FY2011 from ₹ 67.8 crore in Q3FY2010
- ✿ PAT in Q3FY2011 reported at ₹ 38.2 crore from ₹ 45.7 crore in Q3FY2010
- ✿ EPS (Basic) in Q3FY2011 at ₹ 8.92 from ₹ 11.14 in Q3FY2010
- ✿ Expansion of Graphite Electrode capacities from current rated 66,000 TPA to 80,000 TPA is on schedule

Expansions – Graphite Electrodes

- ✦ Capacity expansion from 66,000 TPA to 80,000 TPA which commenced in March, 2010 is on schedule
 - Expansion anchored by revival in demand growth of graphite electrodes due to higher production of steel through the EAF route
- ✦ Expansion is expected to be completed by Q2FY2012
 - First phase of production expected to commence from Q1FY2012; full capacity commercial production expected to commence from Q2FY2012
- ✦ 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 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:

“I am pleased to share that the steel industry has achieved output at new record levels in calendar year 2010 and the EAF steel production is also closing in on peak levels. This bodes well for HEG Limited too, indicating higher demand visibility for graphite electrodes; thereby supporting our capacity expansion from 66,000 tons to 80,000 tons.

Moreover, I am glad to report that this capacity expansion is progressing on schedule and the first phase is expected to be operational by early Q1 FY12.

Given our unique operating strengths and business advantages, we are optimistic about delivering better performance.”

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

“The Company has delivered decent operational and financial performance during the quarter under review; for both the graphite electrodes and power businesses.

With our judicious capex initiatives towards capacity expansion, we aim to further consolidate our position as one of the most integrated players in the graphite electrode industry.

We will continue our concerted efforts towards further optimizing our earnings and enhancing operational efficiencies, thereby aiming towards the next level of growth.”



Financial performance – A review

Revenues:

- ☀ Revenues stood at ₹ 310.3 crore in Q3FY2011 as compared to ₹ 290.3 crore in Q3FY2010, on the back of uptick in sales volumes
- ☀ Visibility of improved volumes will support higher proposed capacity utilization rates

Particulars (₹ crore)	Q3 FY2011	Q3 FY2010	Shift (%)	9M FY2011	9M FY2010	Shift (%)
Gross Revenues:	359.0	325.6	10	965.3	887.0	9
Net Revenues:	310.3	290.3	7	832.1	795.6	5

Financial performance – A review

Total Expenditure:

- ☀ Needle coke prices remain stable; Other raw material costs were marginally higher
- ☀ Power and fuel costs higher on account of higher volumes
- ☀ Interest cost has reduced by 32%, due to continued optimization in borrowing arrangements

Particulars (₹ crore)	Q3 FY2011	Q3 FY2010	Shift (%)	9M FY2011	9M FY2010	Shift (%)
Total Expenditure	240.7	197.2	22	643.0	524.1	23
<i>(Increase) / Decrease in Stocks</i>	(5.8)	(25.6)	NA	(75.5)	(8.4)	NA
<i>Consumption of Raw Materials</i>	159.9	138.8	15	450.7	310.4	45
<i>Power & Fuel (Net of Interdivisional purchases)</i>	15.4	11.6	33	51.5	38.3	34
<i>Staff Cost</i>	10.8	9.9	9	31.4	29.4	7
<i>Other Expenditure</i>	60.4	62.5	(3)	185.0	154.3	20

Financial performance – A review

EBIDTA:

- ☀ EBIDTA stood at ₹ 72.7 crore in Q3FY2011 from ₹ 95.8 crore in Q3FY2010
- ☀ Margins in Q3FY2011 muted on account of lower realisations in both graphite electrodes and in power (merchant sales portion) and higher expenditure

Particulars (₹ crore)	Q3 FY2011	Q3 FY2010	Shift (%)	9M FY2011	9M FY2010	Shift (%)
EBIDTA	72.7	95.8	(24)	196.3	276.6	(29)
EBIDTA Margins (%)	23.4	33.0	NA	23.6	34.8	NA

Financial performance – A review

- ✦ Profit Before Tax in Q3FY2011 at ₹ 48.4 crore as compared to ₹ 67.8 crore in Q3FY2010 last year
- ✦ In Q3 FY2011, the Company reported a forex gain of ₹ 6.4 crore

Particulars (₹ crore)	Q3 FY2011	Q3 FY2010	Shift (%)	9M FY2011	9M FY2010	Shift (%)
PBT	48.4	67.8	(29)	125.4	189.3	(34)
PAT	38.2	45.7	(16)	94.5	131.8	(28)
PAT Margins (%)	12.3	15.7	NA	11.4	16.6	NA
EPS (Basic) not annualised	8.92	11.14	(20)	22.05	32.13	(31)
EPS (Diluted) not annualised	8.92	10.99	(19)	22.05	31.71	(30)

Segmental results – Graphite electrodes

- ✦ Revenues stood at ₹ 301.9 crore in Q3FY2011 as compared to ₹ 270.9 crore in Q3FY2010 due to an uptick in sales volumes
 - Volumes driven by revival in steel production through the EAF route
- ✦ Q3 FY2011 PBIT at ₹ 43.7 crore from ₹ 75 crore
 - Margins reflect moderation in realisations and higher input costs
- ✦ Order booking continues on an average of rolling 3-6 month basis
- ✦ Negotiations for needle coke supplies are in process and sufficient needle coke is available for current year

Particulars (₹ crore)	Q3 FY2011	Q3 FY2010	Shift (%)	9M FY2011	9M FY2010	Shift (%)
Revenues	301.9	270.9	11	804.3	741.2	9
PBIT	43.7	75.0	(42)	122.9	207.1	(41)
Return on sales (%)	14.5	27.7	NA	15.3	27.9	NA
Capital Employed	752.3	669.2	12	752.3	669.2	12

Segmental results - Power

- ✧ Revenues were marginally higher by 2% at ₹ 50.2 crore in Q3FY2011 from ₹ 49.0 crore in Q3FY2010
- ✧ Earnings performance influenced by
 - Subdued merchant power realisations
 - 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)	Q3 FY2011	Q3 FY2010	Shift (%)	9M FY2011	9M FY2010	Shift (%)
Revenue	50.2	49.0	2	143.0	129.3	11
PBIT	13.9	5.9	135	27.8	28.6	(3)
Return on sales (%)	27.6	12.0	NA	19.5	22.1	NA
Capital Employed	230.5	222.9	3	230.5	222.9	3

In summary

- ✦ **Graphite Electrode volume outlook continues to remain encouraging**
 - Trend is promising considering uptick in volume visibility
 - Capacity utilization to strengthen on the back of higher operational efficiency
 - Customer enquiries continue to remain strong
 - EAF production continuously rising with strengthening steel demand; HEG volume growth ahead of demand trend
- ✦ **Cost outlook stable**
 - Supply and costing of needle coke as key raw material is stable; though other raw material costs have marginally increased
 - Lower finance costs to augment earnings
- ✦ **Performance outlook is positive**
 - Volume growth is visible

In summary

☀ **Model remains strong and robust**

- As the largest single site producer of graphite electrodes HEG enjoys benefits that come with scale, including lowest cost of manufacture
- Key raw material covered through long-standing and deep relationships with key suppliers and captive power supplies
- Impressive long term relationship with customer base
- Sustained optimization in borrowing arrangements

☀ **Fresh expansion to 80,000 MT per annum to augment production ahead of demand uptrend**

- To augment performance once implemented



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 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

Fax: +91 120 254 1575

Email: manvinder.ajmani@lnjbhilwara.com