



Q1 FY14 Investor Update Presentation



HEG Limited - Profile

- ⊕ **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 at 80,000 MT**
- ⊕ The **largest single-site graphite electrodes manufacturer** in the world
- ⊕ **Captive power** generation of **77 MW** provides **reliability & self-sufficiency**

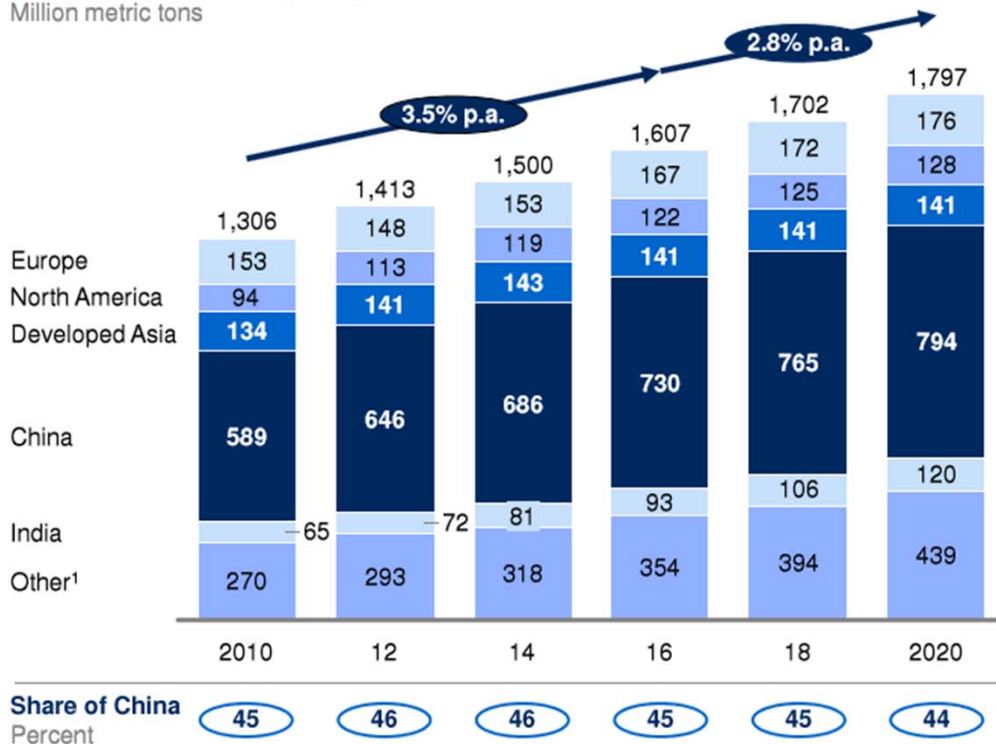


- ⊕ Global **Steel demand** is expected to remain **sluggish in 2013**
- ⊕ Global steelmakers continue to witness supply growth outpacing demand, with **capacity utilization rates likely to remain below 80% till 2014.**
- ⊕ According to WSD* :-
 - Subdued steel prices will continue to weigh on the global steel sector in 2013
 - Steel industry outlook is muted for 2014, indicating another difficult year for most of the steel mills
 - However, **revival in global steel demand** is expected **in 2015**
- ⊕ Shale gas discovery is expected to revive manufacturing base of USA
 - By 2020, **USA's steel demand is expected rise** by 24mmt to 132mmt; **reflecting rising capital spending tied to the low price of natural gas**

Evolution of World Steel Demand & Projections (finished steel)

Apparent steel demand per region

Million metric tons



Regional growth

Percent p.a.

2010 - 16 2016 - 20

1	1
4	1
1	0
4	2
6	7
5	5

Apparent steel use (crude steel equivalent)

Years	Mt
1970	589
1975	640
1980	713
1985	719
1990	773
1995	743
2000	846
2005	1 141
2010	1 403
2012	1 524

1 Africa, other Asia, CIS, Oceania, MENA, Latin America

Source - World Steel Association

Outlook for EAF Capacities

- ⊕ CAGR for EAF steel production is expected to be 3-4%.
- ⊕ New EAF capacity has been coming up in US & Middle East - due to cheap gas & power
- ⊕ China, now a relatively small UHP grade graphite electrodes market, is set to become the world's biggest market within five to ten years.
- ⊕ China is expected to generate more scrap through recycling, which will strengthen the production of EAF steel.
- ⊕ All pointers leading to new EAF capacities in the future. No new blast furnaces are expected to be built due to –
 - enormous capital cost
 - substantial DRI capacity additions
 - sharply rising steel scrap supplies coming from China
- ⊕ Direct Reduced Iron (DRI) consumption is estimated to rise from 2 mmt in 2012 to 13 mmt in 2020 in US as a result of shale gas discovery.
- ⊕ WSD* foresees a continued shift towards a greater proportion of steel making via EAF route – increasing from 54 mmt (or 61% of current steel) to 70.50 mmt (or 67% of total steel) by 2020.

- ⊕ Graphite electrodes find their biggest industrial use in Electric Arc Furnace (EAF) used in steel plants to melt steel scrap.
- ⊕ Graphite electrodes market has a current **market size of over 1.1 million tonnes per year** with the steel industry being the largest consumer
 - The demand for graphite electrodes is therefore sensitive to steel production via EAF
 - **Share of EAF in the global steel production is only 30%** - limited availability of steel scrap limits EAF growth in emerging countries
 - Graphite electrodes are critical to EAF furnace efficiency, but constitutes only 2~3% of steel-making conversion cost

Condensed Statement of Operations

In Rs. Crore

Particulars	Q1 FY14	Q1 FY13	Y-o-Y Change (%)	Q4 FY13	Q-o-Q Change (%)
Net Operating Income	234.09	384.59	(39.13%)	446.29	(47.55%)
Other Income	4.31	2.35	83.40%	4.44	(2.93%)
Total Income	238.40	386.94	(38.39%)	450.73	(47.11%)
Operating Expenditure	197.77	281.49	(29.74%)	377.82	(47.65%)
EBITDA*	40.63	105.45	(61.47%)	72.91	(44.27%)
Depreciation	16.51	16.00	3.19%	14.76	11.86%
EBIT	24.12	89.45	(73.04%)	58.15	(58.52%)
Finance Cost	16.26	15.63	4.03%	16.78	(3.10%)
Forex - Gain/(Loss)	(15.32)	(48.42)	-	2.58	(693.80%)
Profit Before Tax	(7.46)	25.40	(129.37%)	43.95	(116.97%)
Tax Expenses	1.86	2.17	(14.29%)	8.81	(78.89%)
Profit After Tax	(9.32)	23.23	(140.12%)	35.14	(126.52%)

* EBITDA includes Other Income & excludes Exceptional Items

Segmental Performance - Graphite

In Rs. Crore

	Graphite	
	Q1 FY14	Q1 FY13
Net Sales	230.85	380.76
Export (% of sales)	77.55%	81.41%
EBITDA Margin	7.30%	20.70%
EBIT Margin	1.69%	17.45%
Capital Employed	1109.45	1042.22

- Lowest ever capacity utilisation of 58% during the quarter.
- Depressed steel market further softened Graphite Electrodes prices as compared to last year
- Consistent subdued global demand resulted in slower build up of order book during the quarter.
- Higher cost inventory of key raw materials affecting the quarter results negatively.
- Mark-to-Market loss on foreign currency borrowings due to unprecedented depreciation of rupee in the quarter.

Segmental Performance - Power

In Rs. Crore

	Power	
	Q1 FY14	Q1 FY13
Net Sales	46.83	56.2
EBITDA Margin	45.00%	44.43%
EBIT Margin	38.11%	37.97%
Capital Employed	200.96	210.47

- Generation affected by lower capacity utilisation in Graphite segment and merchant sale not being remunerative, resulting in scaling down operations.
- Technical parameters of thermal power plant have been improving consistently.

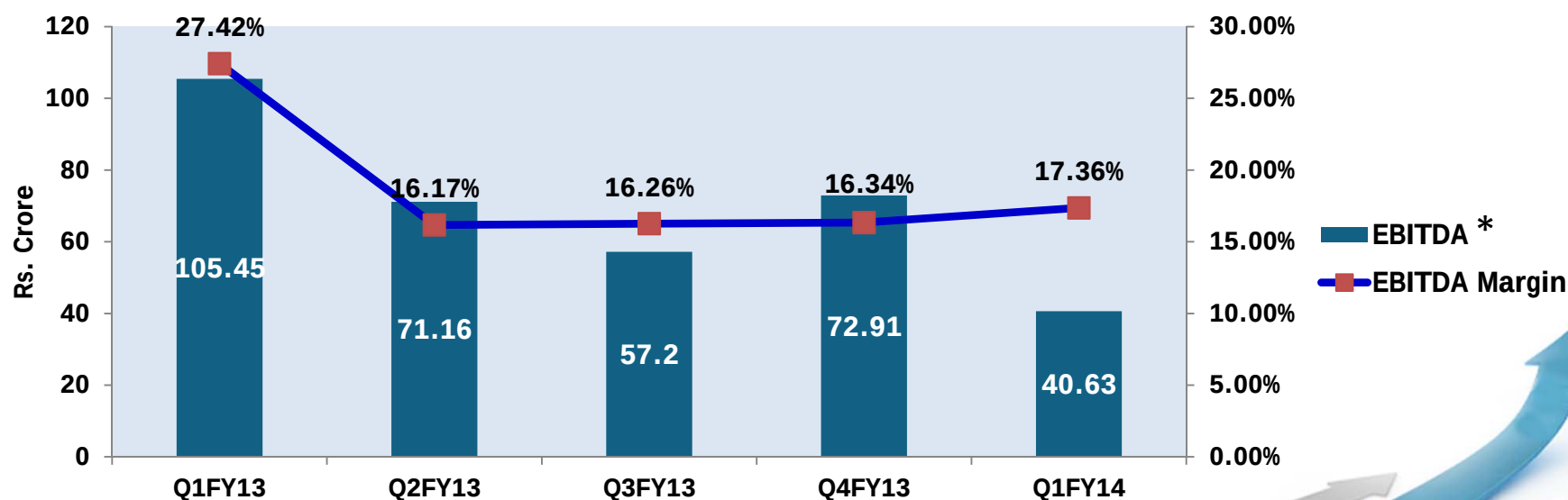
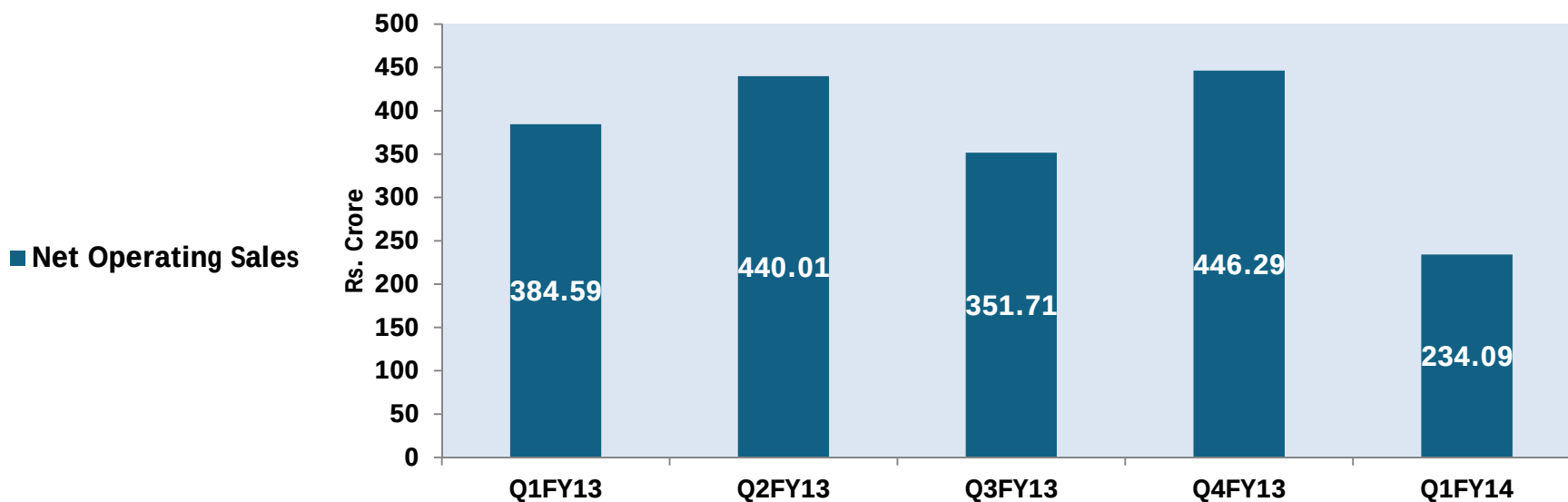
Financial Snapshot (over last 5 quarters)

In Rs. Crore (except EPS)

	Q1 FY13	Q2 FY13	Q3 FY13	Q4 FY13	Q1 FY14
Net Operating Sales	384.59	440.01	351.71	446.29	234.09
EBITDA*	105.45	71.16	57.20	72.91	40.63
<i>EBITDA Margin</i>	<i>27.42%</i>	<i>16.17%</i>	<i>15.97%</i>	<i>16.34%</i>	<i>17.36%</i>
EBIT	89.45	55.46	41.02	58.15	24.12
<i>Return on Sales</i>	<i>23.26%</i>	<i>12.60%</i>	<i>11.66%</i>	<i>13.03%</i>	<i>10.30%</i>
PBT	25.40	43.34	12.57	43.95	(7.46)
PAT	23.23	35.91	11.52	35.14	(9.32)
<i>PAT Margin</i>	<i>6.04%</i>	<i>8.16%</i>	<i>3.22%</i>	<i>7.87%</i>	<i>N.A.</i>
EPS (in Rs.)	5.81	8.99	2.88	8.80	(2.33)

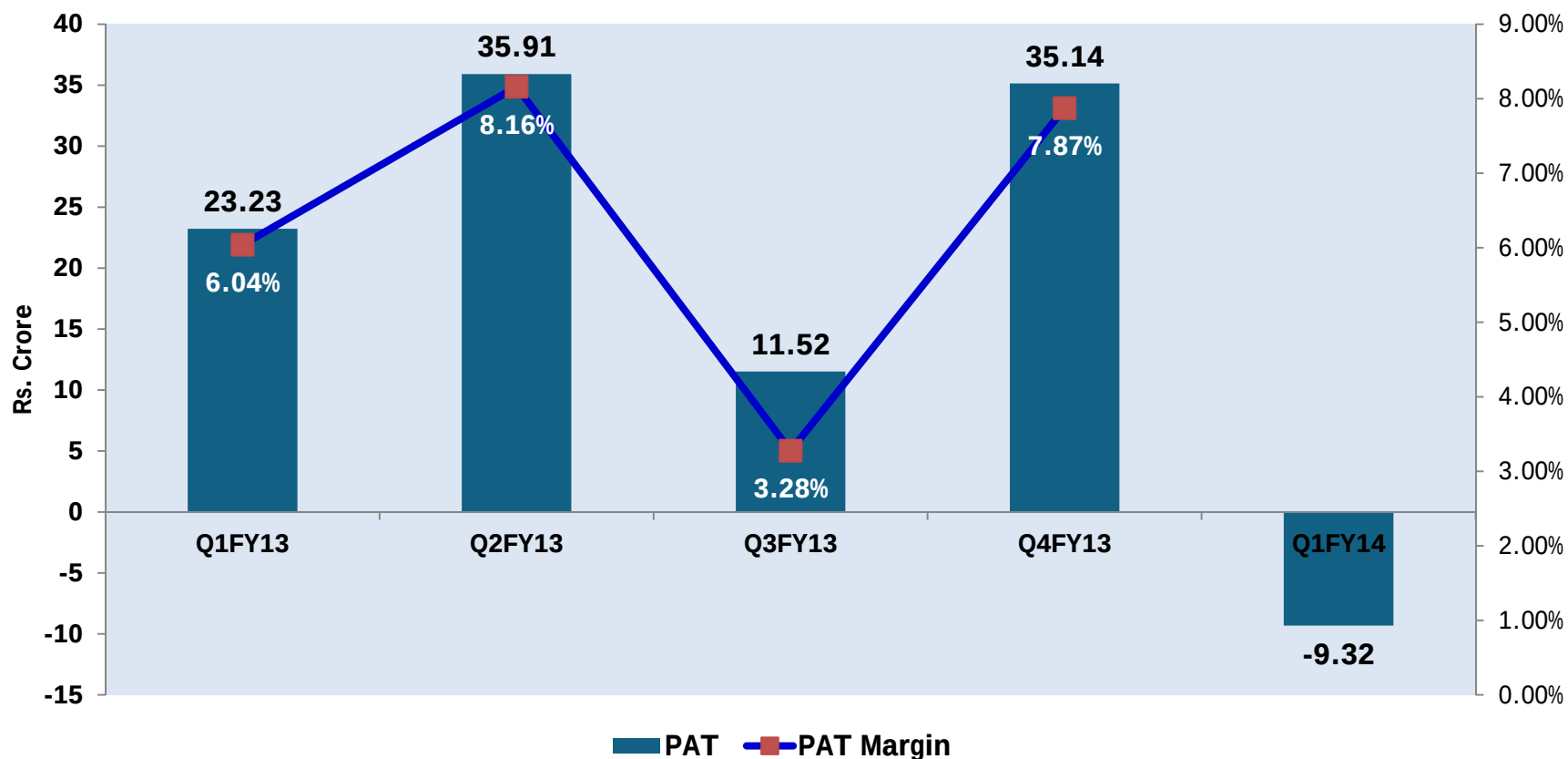
* EBITDA includes Other Income & excludes Exceptional Items

Financial Snapshot (graphical presentation)



* EBITDA includes Other Income & excludes Exceptional Items

Financial Snapshot (graphical presentation)





Performance Outlook

- ⊕ HEG is ramping up capacity utilisation with **improved order book position**
- ⊕ Plans to achieve an **overall capacity utilisation** in the range of **70-75% during the year**
- ⊕ With the exhaustion of higher cost opening inventory of key raw materials, **margins are expected to improve.**
- ⊕ Focus on operating parameters are showing positive results.





Thank You

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