

HEG Limited

Q1 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**



Performance drivers

- ☀ Capacity utilization levels in graphite electrodes in the 65-70% plus range in Q1FY2011 as compared to 55-60% in Q1FY2010.
- ☀ Volume performance in the current quarter is much stronger and volume visibility for the rest of the year is very strong
- ☀ Company has booked 100% orders for the current quarter
 - Negotiations with customers & industry feedback supports this trend
- ☀ Expansion to 80,000 MT anchored by healthy volume visibility
- ☀ Adequate needle coke supplies for existing 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
 - Hydel-power operations provide low-cost power



Highlights

- ☀ Revenues in Q1FY2011 at Rs.222.1 crore as compared to Rs.232.2 crore
- ☀ EBIDTA (After Exceptional Items) at Rs.59.1 crore from Rs.86.1 crore
- ☀ EBIT (After Exceptional Items) at Rs.43.6 crore from Rs.73.9 crore
- ☀ EBT (After Exceptional Items) at Rs.34.5 crore from Rs.56.1 crore
- ☀ PAT reported at Rs.26.6 crore from Rs.41.9 crore
- ☀ EPS (Basic) at Rs.6.20 from Rs.9.96
- ☀ Muted realizations have influenced margins
- ☀ Rupee appreciation y-o-y has also contributed to decline in margins
- ☀ Expansion of Graphite Electrode capacities from current rated 66,000 TPA to 80,000 TPA is on schedule, at a much contained cost of Rs.225 crore



FCCBs due for redemption in July 2010

- ☀ HEG has converted FCCBs worth USD 0.05 million in June 2010
- ☀ With this conversion, the entire outstanding FCCB's with original issue value of USD 28.75 million, due for redemption in July 2010 have been converted
 - FCCBs bought back are USD 3 million
 - FCCB converted USD 25.75 million
- ☀ Post allotment, the paid up capital of the Company stands at Rs.42.85 crore as on 30th June,2010



Corporate Development

- ✿ Bhilwara Energy Limited (BEL), part of the LNJ Bhilwara Group, has raised Rs.230 crore by diluting ~10.8% stake to IFC, Washington and India Clean Energy Fund
- ✿ HEG Limited is one of the promoters of BEL
- ✿ Pre dilution, the LNJ Bhilwara group companies HEG Limited and RSWM Ltd. hold 28.9 percent and 19.5 percent respectively in BEL
- ✿ HEG Ltd.'s stake in BEL post dilution would come down marginally to 25.8 percent.
- ✿ The diluted stake valued at ~ Rs 600 crore as against acquisition cost of Rs.26 crore
- ✿ BEL stake dilution through issuance of equity shares of Rs.10 each at a premium
- ✿ Funds are aimed to be utilised for power projects in India and Nepal



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 and is to be supported by increased demand of steel produced through the EAF route
- ✿ Expansion is expected to be completed by September 2011.
- ✿ 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 funded through a combination of debt and internal accruals.
- ✿ 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:**

“We are witnessing a strong revival in steel and are hopeful of easing the pressure on Graphite Electrode prices. Going forward we are optimistic about the outlook towards the graphite electrode and power divisions. The progress on the graphite electrode capacity expansion is positive as it is on schedule and is expected to be completed towards the end of the first half of FY2012. We are confident of delivering a better earnings performance in the current year given the improving global scenario and strong volume visibility in our business.”

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

“HEG has witnessed stable operations and strives to achieve further progress in this field. We are continuously working towards productivity enhancement measures supported by cost efficiency measures and are well placed as regards our core raw materials, needle coke and power. The order book is steadily firming up considering the visibility of increasing demand for graphite electrodes. Moving forward, we aim at improving the margins, achieving sustainable capacity utilization levels and thereby add value to our stakeholders.”



Financial performance – A review

Revenues:

- ☀ Revenues were Rs.261.7 crore in Q1FY2011 on account of lower graphite electrode prices and appreciation in Rupee y-o-y
- ☀ Realizations muted in Q1FY2011, for power division
- ☀ Visibility of improved volumes in Q2FY2011 will result in better capacity utilization y-o-y

Particulars (Rs. crore)	Q1 FY2011	Q1 FY2010	Shift (%)
Gross Revenues:	261.7	255.6	2
<i>Domestic</i>	66.8	80.1	(17)
<i>Exports</i>	155.3	152.1	2
Net Revenues:	222.1	232.2	(4)



Financial performance – A review

Total Expenditure:

- ☀ Power and fuel costs marginally higher on account of higher production
- ☀ Needle coke prices remain stable whereas other raw material costs were marginally higher

Particulars (Rs. crore)	Q1 FY2011	Q1 FY2010	Shift (%)
Total Expenditure	180.5	159.8	13
(Increase) / Decrease in Stocks	(60.2)	(11.0)	
Consumption of Raw Materials	148.3	87.4	70
Power & Fuel (Net of Interdivisional purchases)	15.5	14.8	5
Staff Cost	10.2	9.6	6
Other Expenditure	51.2	46.8	9



Financial performance – A review

EBIDTA:

- ✿ EBIDTA stood at Rs.59.1 crore from Rs.86.1 crore
- ✿ Margins in Q1FY11 somewhat muted on account of lower realizations and increase in other raw material costs
- ✿ Interest cost has reduced by 49%, given repayment of debt, negotiation of term rates to fixed lower levels and lower working capital costs

Particulars (Rs. crore)	Q1 FY2011	Q1 FY2010	Shift (%)
EBIDTA	59.1	86.1	(31)
EBIDTA Margins (%)	26.6	37.1	



Financial performance – A review

- ☀ Q1 FY2011 Profit Before Tax at Rs.34.5 crore as compared to Rs.56.1 crore last year

Forex:

- ☀ In Q1 FY2011, the Company reported a forex gain of Rs.2.14 crore

Foreign Exchange gain/loss comprises of Marked to Market effect of assets & liabilities denominated in foreign currency and forex positions that have underlying business transactions. The latter also has a near corresponding effect in the revenues in the period in which these transactions are realised. The company follows AS-30 to the extent it does not conflict with existing mandatory accounting standards and other legal provisions

Particulars (Rs. crore)	Q1 FY2011	Q1 FY2010	Shift (%)
PBT	34.5	56.1	(38)
PAT	26.6	41.9	(37)
<i>PAT Margins (%)</i>	<i>12.0</i>	<i>18.0</i>	
EPS (Basic) not annualised	6.20	9.96	(38)
EPS (Diluted) not annualised	6.20	9.96	(38)



Segmental results – Graphite electrodes

- ☀ Revenues in Q1 FY2011 were marginally lower at Rs.208.7 crore from Rs.212.5 crore on account of lower sales volumes
- ☀ However, strong volumes performance in the current quarter and going forward volumes to increase from current levels; on the back of strong visibility
- ☀ Although the trend for pricing is positive, the earlier orders were booked at lower prices and realizations muted; visibility of higher realisations support inventory increase
- ☀ Q1 FY2011 PBIT at Rs.33.8 crore from Rs.60.0 crore
 - Margins are likely to be influenced in the short-term due to moderation in realizations
 - Other Raw Materials prices show an uptrend
- ☀ Order booking is being done on a rolling 3-6 month basis
- ☀ Needle coke booked for the whole year at fixed prices and sufficient needle coke is available for this year

Particulars (Rs. crore)	Q1 FY2011	Q1 FY2010	Shift (%)
Revenues	208.7	212.5	(2)
PBIT	33.8	60.0	(44)
<i>Return on sales (%)</i>	16.2	28.2	
Capital Employed	641.0	648.0	



Segmental results - Power

- ☀ Revenues increased by 25% to Rs.47.5 crore on the back of higher sales volumes
- ☀ The thermal power plants operated steadily
 - Merchant power realizations remained subdued leading to lower earnings ; pricing in Q1 FY 2010 was exceptionally high
- ☀ 3 power plants under operation with a total capacity of around 77 MW
 - 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) – was not operational due to its seasonal nature

Particulars (Rs. crore)	Q1 FY2011	Q1 FY2010	Shift (%)
Revenue	47.5	38.0	25
PBIT	9.3	13.5	(31)
<i>Return on sales (%)</i>	<i>19.5</i>	<i>35.4</i>	
Capital Employed	234.9	214.2	



In summary

- ✨ Outlook for Graphite Electrodes to be guided by higher volumes, on the back of expected growth in the steel sector; volumes expected to drive earnings
- ✨ Industrial trends indicate a likely rise in price of graphite electrodes
- ✨ Rupee volatility 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 resources 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. 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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