HEG

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Operator: Ladies and gentlemen, good day and welcome to the HEG Limited Q4 FY26 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajesh Majumdar from 360 ONE. Please go ahead.

Rajesh Majumdar – 360 ONE: Good afternoon everyone and welcome to the Q4 FY26 HEG Limited earnings conference call. We have with us today the management team represented by Mr. Ravi Jhunjhunwala, Chairman, Managing Director and CEO; Mr. Riju Jhunjhunwala, Vice Chairman; Mr. Manish Gulati, Executive Director; Mr. Om Prakash Ajmera, Group CFO; Mr. Ravi Tripathi, CFO HEG Limited; Mr. Puneet Anand, Group CSO; and Mr. Salil Bawa, Group Head, Investor Relations. Apart from this, we have the HEG Greentech team as well for any queries on that. Without much ado, I hand over the call to Mr. Ravi Jhunjhunwala, Chairman, Managing Director and CEO. Over to you, sir.

Management: Thank you, Rajesh, and good afternoon everyone and welcome to our financial results conference call for the fourth quarter and full year 2025-26.

Let me begin this discussion with some broader industry context. According to the World Steel Association, global crude steel production in Q1, January-March 2026, stood at around 459 million tons, marking a decline of roughly 2% year-on-year, while registering a sequential recovery of about 8% versus Q4 of last year. This is mainly China-driven. We have seen this phenomena of higher production in the last quarter of the year by China many times in the past, and this normally tapers down to more reasonable levels as we come to the second half. China typically follows a cyclical production pattern with output moderating in Q3 and Q4 to align with environmental and policy targets, which is close to about 1 billion tons of steel production, followed by a strong restart in Q1 practically every year.

Excluding China, global steel production stood at approximately 212 million tons in Q1 2026, which is a decline of about 1.3% over Q4 2025. Among some key steel-producing regions, India continues to be a standout performer, recording around 5% quarter-on-quarter growth, supported by strong infrastructure and construction activities. The US too saw a modest growth driven by steady industrial demand, while Europe remained relatively muted. Japan, Brazil, and several other large steel-producing countries were broadly flat to slightly negative, reflecting ongoing softness.

China continues to face domestic demand pressure resulting in elevated export levels. Chinese steel exports are now running at over 100 million tons on an annual basis, which continues to impact global pricing and drive increased trade protection measures worldwide. At the same time, current geopolitical tensions amidst conflicts in the Middle East are contributing to volatility in energy markets and supply chains.

We are clearly witnessing an acceleration in the regionalization of steel trade driven by rising protectionist measures globally in response to structural overcapacity, particularly in China. Measures such as Section 232 in the US, anti-dumping, and safeguard actions in Canada, Mexico,

India, Brazil, and similar steps across other regions are reshaping trade flows. In Europe, the Carbon Border Adjustment Mechanism, generally called CBAM, is a key structural change. By imposing a carbon tax on imports of steel, it incentivizes lower emission steel production and exports, which is only possible through electric arc furnaces. In parallel, the EU's upcoming tariff rate quota regime, coming as early as July 1, 2026, is expected to further restrict steel imports into the EU and thus increase its own steel production, which has seen a constant decline quarter after quarter.

This is particularly significant for electric arc furnace steelmaking. Excluding China, about 50% of steel is already produced through electric arc furnaces and the share is expected to rise further given its significantly lower carbon intensity compared to the blast furnace/basic oxygen furnace route. Under CBAM, reduced exports of steel to Europe are expected to increase favored electric arc furnace-based steel due to its carbon footprint advantage.

As a result, we expect a structural and positive change in electric arc furnace steel production with a strong pipeline of new capacity additions of electric arc furnaces globally. This directly supports long-term demand growth of graphite electrodes. To the best of our knowledge, about 20 million tons of new greenfield electric arc furnaces have already been commissioned in the last 12-18 months all over the world, and we believe an additional 60 million tons are at different stages of implementation, which should be in production by 2028, and another 30 million tons by 2030. So the total new installations of electric arc furnaces all over the world, except China, would thus be a little over 100 million tons.

This kind of growth in the electric arc furnace-based industry is unprecedented in the history of the steel industry and is expected to translate into incremental electrode demand of around 200,000 tons by 2030, excluding China. We are very well placed to meet some of this new demand with our recent expansion from 80,000 to 100,000 tons, and as you are aware, we have already announced our next expansion to 115,000 tons, which is likely to be operational by early 2028.

In this backdrop, our focus on operational efficiency, cost discipline, and customer diversification has enabled us to deliver a resilient performance during this quarter. We continue to operate at healthy utilization levels, which is probably the highest all over the world, averaging more than 90% for the whole year as well as the past 3-4 immediate quarters. This is based on our expanded capacity of 100,000 tons, reflecting strong operational efficiency, low cost, and disciplined planning. Our plant near Bhopal remains the largest single-site location of electrode plants anywhere in the world with a capacity of 100,000 tons, which makes us one of the most competitive cost companies due to its size and location in India.

Looking ahead, we remain confident of the long-term growth opportunity for our company. Construction of the additional 15,000 tons expansion is progressing as planned, and we continue to target completion by early 2028. This will further strengthen our ability to serve incremental global demand at a competitive cost. To summarize, while near-term conditions remain mixed, the structural shift towards electric arc furnace steelmaking supported by decarbonization policies and trade realignments in the world continues to strengthen the long-term demand outlook for electrodes. With our scale, cost leadership, and high utilization levels, we believe HEG is very well positioned to benefit from this transition.

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I would like to clarify a point on our investment in GrafTech. I would like to reaffirm that our position remains unchanged. This was undertaken as a deliberate long-term investment and our conviction continues to be anchored in the structural fundamentals of this business rather than near-term market movements. Cyclical volatility is intrinsic to this industry and interim fluctuations in no way alter our outlook or our resolve. We remain fully committed to this investment and we are confident in the long-term value it will create for our stakeholders.

We are pleased to inform you that the composite scheme of arrangement is progressing well. The NCLT convened meetings of the equity shareholders, secured creditors, and unsecured creditors of HEG are scheduled for Tuesday, May 5 to seek their approval of the same. Subject to shareholder, creditor, and other regulatory approvals, we anticipate that the scheme could be approved by the NCLT sometime in the second quarter of this financial year.

With that, I would now like to hand over to our CFO, Ravi Tripathi, to take you through the financial performance for the quarter, after which we will open the floor to the question-and-answer session.

Management: Thank you, sir. Good afternoon everyone. Thank you for joining us. I will briefly explain our performance for the quarter and for the full year ended March 31, 2026.

Compared to last year, we have shown strong growth in volume as well as in revenue. Our sales volume increased by 20%, which helped our revenue grow from Rs.2,163 crores to Rs.2,569 crores. Total income also increased to Rs.2,660 crores from Rs.2,279 crores. Our EBITDA increased from Rs.388 crores to Rs.497 crores, with margins increasing from 17% to 19%. Our operating margins remained stable in the range of 15-20% during the year, with more than 90% capacity utilization.

PBT has increased from Rs.148 crores to Rs.246 crores, which is a growth of 66%. Net profit also increased from Rs.101 crores to Rs.181 crores. This improvement came from higher volumes, better control on input costs, and focused monitoring on all fixed costs. The company remains financially strong with no long-term debt as of March 31, 2026. It had a treasury of around Rs.792 crores.

Coming to the quarterly performance, we reported a loss of Rs.189 crores. This is mainly attributable to unrealized losses arising from fair valuation impact on foreign investments and rapid depreciation of the Rupee, which reached 5% within this quarter. These are entirely unrealized losses and we have taken the impact of them in the books as per the applicable Indian Accounting Standards. Excluding the unrealized losses, our operating margins for the quarter are intact and are reasonably comparable with the previous quarters.

The Board of Directors has recommended a final dividend of Rs.3.4 per equity share with a face value of Rs.2, subject to shareholder approval at the upcoming Annual General Meeting. For more details, the full presentation is available on the company's website and the Stock Exchanges. We are now happy to take your questions. Thank you. Over to you, Rajesh.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and then one on their touch-tone phone. Our first question comes from the line of Amit Lahoti from Aditya Birla Capital. Please go ahead.

Amit Lahoti – Aditya Birla Capital: Good afternoon. Thanks for the opportunity. My first question is on pricing. During the quarter, GrafTech announced a price hike and we are getting a sense that there is growing customer acceptance, given that the electrode cost is now less than 1% of steel prices. Could you quantify how much price hike we are looking to take starting from this financial year? Is there a similar cost increase for needle coke as well?

Management: Amit, as you know, we book orders between 3–6 months. As we speak, we are booked almost until September. For the unbooked orders, we are definitely looking at a price increase. It depends from region to region on how much price we can get. We already have some increase in costs due to energy and freights, so a price increase is necessary. Whether the quantum will be 300, 400, or 500 is very difficult to say at this stage as it depends on how much each region can absorb and what our competitors are doing. But definitely toward the second half, our aim is to have a price increase, not only to protect our margins but to improve them further.

Amit Lahoti – Aditya Birla Capital: Okay. But does it implicitly mean that we are going to have some cost impact in the first half of the year even before the price hike rolls in?

Management: It will be there, but not to that extent because of our longer product cycle. For example, if gas prices or furnace oil prices go up today, by the time the products are made in 2 months and get shipped, there will be a lag. But yes, certainly there will be some cost increase.

Amit Lahoti – Aditya Birla Capital: Noted. And my second question is on Green Tech, particularly for TCCC. Where are we in terms of the customer qualification process? How fast can we ramp up once it gets commissioned? Are there any technology or qualification bottlenecks left to be resolved over the next 6–12 months?

Management: Regarding customer acquisition, you are aware that we set up our pilot plant for sampling more than 18 months ago. We have made very good progress with all leading OEMs across the world. While Indian cell capacity seems delayed, we are actively working with the Indian ones as well as global companies like LG, Panasonic, and CATL, where we are in different stages of sampling. The sampling work is going extremely well, as is the plant commissioning. There is no change in the plant commissioning date, and we hope that in the first year itself, we will be able to have a decent 40-60% capacity utilization because of the ongoing customer acquisition. There are no technology issues that we are currently facing.

Operator: Thank you. The next question comes from the line of Rajesh Majumdar from 360 ONE. Please go ahead.

Rajesh Majumdar – 360 ONE: Good afternoon again. I wanted to know the sales volume for the quarter and why the revenue was lower. Is it because of lower realizations or lower sales volume?

Management: Regarding Q4, there was slightly less volume, to the tune of about 1,000 tons, and some depression in price, but that is only because of our regional sales mix. We are shipping to 40 countries, so it depends on which customers those lots go to. There is no depression in market price per se. It is just because of our size mix and order mix which varies quarter on quarter. This quarter we had some lower price orders which dragged the price down a little bit. In April–June, you will see it quickly coming back up. It is very temporary and that did cause some dent in the

operating profits.

Rajesh Majumdar – 360 ONE: Just a related question. Is there any disruption because of the Middle East situation and what proportion of sales do we have there?

Management: Annually, we do about 20% of sales in the Middle East and North Africa region. Yes, there is absolutely a disruption. Orders from customers in Kuwait and Saudi Arabia had to be postponed. Instead, we had orders from other customers that were given precedence. As soon as the situation normalizes and the Strait of Hormuz opens, the pending orders for the Middle East will be shipped.

Rajesh Majumdar – 360 ONE: We have seen a huge rally in crude oil, which will impact needle coke prices. As you are covered until September on your contracts, are you covered for the needle coke side as well? How much cost increase will percolate to us and when?

Management: We are covered for needle coke shipments starting from their origin until the end of June. By the time they arrive, it takes 45 days, and our electrode processing is another 45 days. This safely covers our needle coke costs until September. However, it doesn't protect us from other materials sourced from India or energy costs. Purely on the needle coke side, we remain protected until September.

Rajesh Majumdar – 360 ONE: Do you see the rise in gas and energy prices as an impediment to the electric arc furnace and CBAM theme? Energy requirements for electric arc furnaces are nearly three times higher than blast furnaces.

Management: Energy costs in Europe depend on their power generation mix. Power is a major cost for an electric arc furnace steel plant, but I don't think it will cause a direct hit to the economics because it depends on the price at which they can get power in their specific country. There may be some marginal impact, but it doesn't fundamentally change anything.

Rajesh Majumdar – 360 ONE: And is CBAM on track?

Management: CBAM is already being applied. It will lead to a reduction in steel imports in the EU, which will encourage local steel plants to move to electric arc furnaces or expand existing ones. Europe is adding at least 25-30 million tons of new electric arc furnace capacity. Close to 100 million tons of new electric arc furnaces are scheduled to come in globally, with 30 million tons operational within 2026-2028. That will require a lot of electrodes. Aside from our expansion, nobody has even announced any significant new capacity as yet. It takes 2-3 years to complete even a small brownfield expansion.

Operator: Thank you. The next question comes from the line of Ahmed Madha from Unifi Capital. Please go ahead.

Ahmed Madha – Unifi Capital: Thank you for the opportunity. For Q4, can you quantify the sales volume? You quoted 94% capacity utilization, but how many thousand tons were impacted because of logistics?

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Management: Between Q3 and Q4, about 1,000 tons were impacted because the Middle East orders had to be postponed. Most of that was diverted, which is why the impact was limited to 1,000 tons.

Management: The situation is such that steel companies in the Middle East are desperate for raw materials and do not want to close their plants. They are prepared to pay $200-300 extra for electrodes to be sent by road instead of the $20-30 cost we incur for ocean shipping. They are prepared to pay 300 dollars per ton extra effectively to avoid closing the steel plant.

Ahmed Madha - Unifi Capital: Regarding pricing, you are booked till September, but I'm assuming post-September contracts will be done soon. Do you see a significant price increase in those conversations?

Management: For all new inquiries, we are pricing them accordingly by taking into account increased costs. Each customer has their own buying patterns. we are offering increased prices in the market and are quite hopeful some of it should get absorbed. It also depends on how seriously our peer group pursues price increases, but we have started offering higher prices for uncommitted volumes.

Operator: Thank you. The next question comes from the line of Kartikeya Kumar Pandey. Please go ahead.

Kartikeya Kumar Pandey: Thank you for the opportunity. I understand the industry tailwinds, but I wanted to ask about the needle coke capacity constraint. Demand is coming from our industry and the anode sector. Incremental demand is about 120,000 tons for electrodes and another 100,000 tons for anodes. This doesn't seem to add up to existing needle coke capacity, and no huge additions are happening. How will we fulfill this extra 120,000 tons of demand given we are not backward integrated?

Management: One reason we decided to invest in GrafTech shares was that it is the only graphite company in the world that is 75-80% backward integrated. They have their own needle coke plant to the extent of 75% of their capacity. 5-6 years ago, when electrode and needle coke prices went up sharply, GrafTech was in a unique position. While we and others had to buy needle coke at $3,000-4,000 higher, they were captive. Our logic for buying those shares was that when electrode prices go up again, backed by a needle coke shortage, GrafTech will make money on both electrodes and needle coke. The investment has fluctuated, but as soon as the 100 million tons of new electric arc furnace capacity starts operations, we expect a shortage of electrodes and needle coke.

Kartikeya Kumar Pandey: According to GrafTech, about one-third of the existing 650,000 tons of demand is met by Chinese players, which is bringing down global capacity utilization to 60-65%. What is stopping them from doing the same for the incremental 120,000 tons of demand?

Management: China is exporting a lot of electrodes, predominantly high-power grade, though they also export some UHP electrodes in sizes mostly up to 24 inches. GrafTech might be discussing the impact on themselves, but please remember HEG is running at 90% plus utilization. HEG is a very cost-competitive plant because of our size and location in India. Our costs are lower, so we don't

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feel we are being dented by Chinese UHP exports in the same way they might be.

Operator: Thank you. The next question comes from the line of Malan Buladia from NTP Securities. Please go ahead.

Malan Buladia – NTP Securities: You mentioned unrealized losses in investments. If we pull out the GrafTech loss and the loss on forex instruments, is there also a shipping cost hit? And do your fixed-price contracts have a force majeure clause for oil or shipping price spikes?

Management: In the Middle East, where freight costs shot up from $20-30 to more than $300, we sent letters of force majeure. Customers are taking material FOB Mumbai and paying for the extra freight. Freights have increased for the US and Europe as well, but they are still absorbable. When we book a 6-month contract, some cost movement is expected and we typically don't renegotiate unless something goes really wrong. We try to provide as much visibility as possible based on our tied-up needle coke and power costs.

Malan Buladia – NTP Securities: Regarding other expenses, was there a large jump besides what was disclosed in the note?

Management: If you compare with the previous quarter, we added the fair valuation losses to other expenses, which is why it looks higher. There was also an impact of exchange gain/loss due to rapid Rupee depreciation of approximately 5% within the quarter.

Operator: Thank you. The next question comes from the line of Raj Kiran Gandhi from SBI Mutual Fund. Please go ahead.

Raj Kiran Gandhi – SBI Mutual Fund: Can you quantify this FX loss?

Management: This FX loss is completely unrealized and we have quantified it in the range of 35-40 crores within the quarter. If the Rupee appreciates, you could see a reversal in the next quarter.

Raj Kiran Gandhi – SBI Mutual Fund: There has been some gross margin contraction quarter-on-quarter. Any particular reason for that?

Management: I explained that when the conflict occurred, orders needed to be shuffled. The Middle East orders, which have lower logistical costs, had to be postponed. Depending on which orders ship in a specific quarter, the mix can move up and down. You will see that coming back up in the April-June quarter.

Raj Kiran Gandhi – SBI Mutual Fund: How much of your opex is Rupee-denominated versus FX-denominated? How much realization benefit comes from Rupee depreciation?

Management: We gain from Rupee depreciation because we are a net exporter. Outgoing exchange is primarily just for needle coke, which is a smaller part compared to total realization.

Operator: Thank you. The next question comes from the line of Ajeet Lakkani from Unified AMC. Please go ahead.

Ajeet Lakkani – Unified AMC: I want to understand more about needle coke sourcing. Can you talk about where you procure it from and whether capacities are being added globally?

Management: Needle coke is a very technology-based product. There has not been any new greenfield needle coke plant built in the last 70-80 years, and there are only 3-4 suppliers in the world from Japan and the US. What we realized 5 years ago is that what we can pay for needle coke, the battery industry cannot pay because they can replace needle coke with 6 or 7 other raw materials. For graphite electrodes, there is no replacement. Needle coke capacities have not really expanded because the graphite industry itself didn't expand for 40-50 years. On the contrary, capacities shrunk. When the electrode industry utilization was down, there was an abundant supply of needle coke.

Operator: Thank you. The next question comes from the line of Ronak Agarwal from IThought PMS. Please go ahead.

Ronak Agarwal – IThought PMS: As GrafTech has taken a price hike of $600-1,200, can we expect a similar full price hike to be seen in our volumes by the end of this financial year?

Management: Everybody is talking about uncommitted volumes. It is one thing to say you want a price increase, but the market also has to accept it. It is a long-process industry; producing an electrode takes 2-5 months. When we export to more than 30 countries, it takes time for products to reach destinations like America, which can take 40-45 days. We are committed to certain prices for fixed periods, as we are for buying needle coke. There is a time lag between announcing a price increase and actually receiving it.

Operator: Thank you. The next question comes from line of Rohit Potti from Marshmallow Capital. Please go ahead.

Rohit Potti – Marshmallow Capital: You mentioned that we have supplies until June. Is there any indication of a needle coke price increase given the Middle East crisis?

Management: So far, there is no indication. In the month of June, when we sit down and discuss the next quarter's contracts, we will see what they come up with. It eventually comes from decant oil, so when fuel prices go up, they are impacted.

Rohit Potti – Marshmallow Capital: Regarding the regionalization of trade, there are protective measures in Europe and talk of anti-dumping duties in the US against Indian imports. How do you see our volumes over the next 2-3 years?

Management: We have hired strong law firms in India and the US. We don't believe we are doing anything seriously wrong, especially in America where our prices are among the highest. We are the lowest-cost producer, so if these duties are at a reasonable level, we can probably absorb them.

Rohit Potti – Marshmallow Capital: Is the primary driver of the price increase just the Middle East crisis?

Management: It is not just the Middle East problem. Even before that, international companies were losing money quite significantly. They have been looking for a price rise for almost 2 years because

their performance was unsustainable. The Middle East situation, rising energy costs, and freights were just the last straw.

Operator: Thank you. Our next question comes from the line of Akhilesh from MK Global. Please go ahead.

Akhilesh - MK Global: How much was the utilization for the first quarter? In Q3, you said 85% utilization, but my numbers show a difference of 2,500 tons.

Management: On production, utilization was 95% for the quarter. Sales wise, it is less. Overall for the year, it is more than 90%. Sales volume was down by 1,000 tons. That is absolutely correct.

Akhilesh - MK Global: Why has other income gone down during the quarter? Does it only constitute interest income?

Management: The other income is lower due to the fair value change loss which we classified under other expenses. Going forward, it should be in the same line as previous quarters.

Akhilesh - MK Global: Last quarter you guided for EBITDA margins around 22% for the next couple of quarters. How should we see it now for FY27-28?

Management: In the first two quarters of this year, it should be around 17-18%. We have closed this year at 20%. For the first quarter and second quarter, the range should be roughly 20%. It should be more than 20% for the full year.

Operator: Thank you. Ladies and gentlemen, we will take that as our last question for today. I now hand the conference over to Mr. Ravi Jhunjhunwala for closing comments.

Management: Let me thank all of you for taking an interest and asking probing questions. This forces us to think about how we answer these matters, including things we might not otherwise consider. Thank you very much, and I look forward to meeting you again in 3 months.

Operator: Thank you, members of the management. On behalf of HEG Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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