

Operator

Ladies and gentlemen, good day and welcome to the HEG Limited Q3 FY 2014 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. . Please note that this conference is being recorded. I now hand the conference over to Mr. Parin Narichania of Progwell Teamwork. Thank you and over to you sir.

Parin Narichania, Analyst

Yeah. Thank you, Inba. Good evening everyone. We welcome all of you to HEG Limited's analyst and investor conference call. We shall discuss the performance and financial highlights of Q3 FY14. We have with us today, Mr. Ravi Jhunjhunwala, Chairman and Managing Director and Mr. Raju Rustogi, the CFO. We will begin this call with opening remarks from the management team, following which we will open the floor for an interactive question-and-answer session. Before we begin, I would like to mention that certain statements in this con call may be forward-looking in nature and a disclaimer to this effect is included in the investor presentation which was sent to you earlier. I would like to hand over the floor to Mr. Ravi Jhunjhunwala. Sir, over to you.

Ravi Jhunjhunwala, Chairman and Managing Director

Thank you. Good evening and thank you for joining us for HEG's third quarter conference call. The world economy is looking a bit better than an year ago towards having recovered to a large extent in Europe also on a path of recovery. The coming year thus looks better than the past year. According to the World Steel Association, Global steel production in calendar year 2013 is 1607 million tons representing an increase of about 3.5% compared to 2012. However, without China the world steel production was still lower in 2013 versus 2012 though just a rebid. The growth mainly came from Asia and Middle East regions. All other regions EU, North and South America and the CIS witnessed a slight decrease in production.

Chinese steel production increased by 7.5% year-on-year to reach about 779 million tons in 2013. However, the recent Chinese data showing a sharp drop in PMI and their projected steel production data for 2014 showing a growth reduction from 7.5% last year to 3.5% in 2014 are a cost for concern not just for the steel and electrode industries, but for the entire world economy in general.

India remains world's fourth largest steel producer after China, Japan and US with an output of about 80 million tons in 2013. The growth in the Indian steel market is expected to be muted in the short-term on account of poor growth in our core consumer sectors such as infrastructure and construction. The demand is expected to rebound in 2015, a major growth announced in the twelfth five-year plan.

In India existing as well as some of the new industry players have lined up about 71 million tons of steel capacity addition till 2017 through both Brownfield and Greenfield routes. However, there is considerable uncertainty on the actual capacity addition as many projects are yet to achieve financial closures due to delays or lack of regulatory clearances.

Mining bans in Karnataka, Goa and recently in Orissa delays in the execution of announced capital projects can further constrained these additional capacities. The Global steel industry is expected to make a recovery this year led by a rebound in Europe and the rest of the world offsetting a slowdown in Chinese growth. Chinese steel production is expected to rise year-on-year by just about 3.5% in 2014. However, a 2.5% year-on-year increase in output in Europe following last six years of decline will partly offset a slowdown in China. With steel demand from developed economy is expected to return to positive growth, the world steel production is projected to increase by about 3.6% in 2014 even with the muted projection for China. However, Global steel industry remains structurally impaired by significant excess capacity and low pricing power.

Friends as you know, graphite electrodes find their biggest use in Electric Arc Furnaces used in the steel plants to melts steel scrap. Demand for graphite electrodes is therefore sensitive to steel production via Electric Arc Furnace route. In this route of steelmaking scrap steel and Direct Reduced Iron, popularly called as Sponge Iron in our country are used as feedstock. The share of Electric Arc Furnace in the Global steel production currently stands at approximately 30%.

EAF share of global steelmaking has been steadily rising in recent years. Growing steel scrap reservoirs, substantial DRI and sponge iron capacity additions, efficiencies, feedstock flexibility and environmental advantages of EAF make them a much more attractive

investment for future capacities.

Except for China and India no new blast furnaces have been added anywhere else in the world in the recent times and the entire growth has come out of Electric Arc Furnaces only. Electric Arc Furnaces' share of crude steelmaking is thus likely to grow exponentially over the coming years as soon as the world economy stabilizes. With the advent of shale gas in the US, substantial new DRI capacities are coming up there which will further give a fill up to additional Electric Arc Furnace capacities in that region.

Now coming to our Company's operations. As envisaged we achieved a capacity utilization of over 80% in the current quarter vis-a-vis around 60% in the first and the second quarters. In the current quarter, the last quarter of the year, our order book is very healthy and we are likely to operate at 100% capacity. Our operational strategy to produce longer lead-time products like nipples certain large-sized products which take a fairly long time to produce.

In the first half year of the year and using this relatively lean time in terms of our order book optimally seems to have paid off which is now visible from our results. Though the industry scenario does look -- does not look very encouraging in the short-term. Our margins have improved as a result of our continuous efforts on operational. The stress in the global graphite electrode Industry has taken its toll and we have recently witnessed two major industry players from western world announcing permanent closure of approximately 90,000 tons of their current capacities which will happen by the end of the first half of calendar year 2014. This virtually amounts to about 8% to 10% of the total ultra high power capacity of the world.

This is a major development for this industry as a substantial part of capacity imbalance would be taken care of due to these closures. We do expect some more closure announcements not too distant a future in the western world. Now coming to our raw material as you all know needle coke is the largest single component of our cost. While in the electrode sectors, we have seen closures of capacities as I just mentioned.

On the other hand, we are seeing certain capacity additions in the needle coke sector by the end of 2014. One new plant in China and another new plant in Korea are likely to start production in the fourth quarter of this year in the October-December 2014 period. This is putting pressure on the needle coke prices and this is helping us to source needle coke at lower prices. We saw a substantial drop in the needle coke prices in 2013 versus 2012 and we see this trend continuing in 2014 as well.

We are currently in the middle of negotiating our requirements for needle coke for the next six to 12 months. The next large cost component for us is Electrical Power where as you know we are fully self-reliant with two coal-based and one hydroelectric power plants totaling approximately 75 mega watt which provide us with a very cost effective and stable power. As you know our hydroelectric plant has now been operating for 20 years and all the debts and everything has been paid off. And as you also know once we have paid off all your interest and repayments the cost in a hydro plant is virtually nothing. In summary friends softening of needle coke prices, higher capacity utilization, a strong order book, a stable and cost effective power and improved operational efficiency makes our company stronger in sustaining these challenging times of today. We do expect to give a better performance in the current year.

With this overview I would now ask our CFO, Mr. Rustogi to take you through the financials.

Raju Rustogi, Chief Financial Officer

Thank you. Just a quick overview of Q3 FY '14 numbers and then we'll be happy to take. For the quarter ended December '13, HEG recorded net operating income of INR428 crores as against 358 crores in the corresponding quarter of last year, registering a nearly 20% increase in the top line. EBITDA including other income and excluding exceptional items witnessed an increase of 54% from INR57 crore in Q3 FY'13 to INR88 crores by '14. EBITDA margin stood at 20.68% as compared to 15.9% in Q3 FY'13 is 17.64% in Q2 FY'14.

Improved margins are primarily due to use of low cost needle coke, higher operating efficiencies, graphite segment and optimum running of our power resources which has supported power resources are optimized due to higher capacity utilization in the graphite segment. As recorded a jump of 180% from 11 crores in Q3 FY'13 to now of 44 crores in Q3 FY'14. This quarter in particular witnessed a more stable forex environment in the country.

The company has also taken concrete steps of resorting to higher percentage of rupee denominated borrowing as a ratio to total short-term debt thereby insulating itself from forex fluctuations for large extent. Finance cost looks to be higher partly as a result of this debt is partly due to capitalization of fixed assets. The interest of which was earlier being part of CWIP. The company has been able to repay all long-term loans in time and there has been a widespread improvements most of the elements are working capital investment in the year under review. This is the summary of what all happened in nine months of FY '14.

And now I think we're open to take questions and clarify more on this.

Questions And Answers

Thank you very much, sir. Ladies and gentlemen we will now begin the question-and-answer session. Our first question is from Goutam Chakraborty of Emkay Global. Please go ahead.

Goutam Chakraborty, Analyst

Yeah. Hello. Thanks for the opportunity and congrats on good set of numbers. Just wanted to understand a little bit more on the order book situation, sir. You mentioned that you got some large orders and some of them were executed in Q3. So, I mean what should we expect in next couple of quarters down the line?

Ravi Jhunjhunwala, Chairman and Managing Director

Our order book is fairly healthy. As I said, in this quarter we are going to operate at more than 100%.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

However as you know in the normal situation by February, March, in this industry the tendency has been that you more or less sell between 65% and 75% of the entire US business.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

It has undergone a change in the last three, four years ever since this 2009 crisis.

Goutam Chakraborty, Analyst

Right.

Ravi Jhunjhunwala, Chairman and Managing Director

So, nobody is now booking for 12 months, except for some very large exceptions.

Goutam Chakraborty, Analyst

Yeah.

Ravi Jhunjhunwala, Chairman and Managing Director Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

Which is very normal, I mean most of the other large industry players would more or less be in the same region.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjunwala, Chairman and Managing Director

So, that is where, that is what it is, I mean, this quarter we are more than 100% booked as I said.

Goutam Chakraborty, Analyst

Okay. So, even in the Q1 of the FY '15 would be around maybe 50, 60 or more than so?

Ravi Jhunjunwala, Chairman and Managing Director

We are more than, we are more than 60% as far as the first quarter is concerned, but a lot of time to go.

Goutam Chakraborty, Analyst

Just wanted to understand because from this only, we would get a sense of your utilization pattern. As you said, you would be operating probably almost 100% during this quarter. So, the trend going forward for the FY'15 on an average basis. What could we expect as far as the utilization pattern is concerned?

Unidentified Speaker

This quarter considering we were at about 60% in the first one -- first and the second quarter.

Goutam Chakraborty, Analyst

Yeah.

Ravi Jhunjunwala, Chairman and Managing Director

82% in the third quarter and we are more or less at about 75%.
Okay. So, so yes.

Ravi Jhunjunwala, Chairman and Managing Director

We -- we do expect not to go below this at any case for next year, the whole of next year.

Goutam Chakraborty, Analyst

Okay. So any case, I mean the, on an average at least 75% to 80% inflation we should expect in FY'15?

Ravi Jhunjunwala, Chairman and Managing Director

Let's say 70% to 80%. I mean, it's very difficult at this stage.

Goutam Chakraborty, Analyst

Yeah.

Ravi Jhunjunwala, Chairman and Managing Director

As I said, we have currently 40%, our order book is 40% for next year.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjunwala, Chairman and Managing Director

That is, that is--

Goutam Chakraborty, Analyst

Hello.

Ravi Jhunjunwala, Chairman and Managing Director

Yeah.

Goutam Chakraborty, Analyst

Thanks, sir. There is a problem probably in the line. I'm not able to hear you.
No as I said -- as I currently said, we have order book of about 40% for the next year.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjunwala, Chairman and Managing Director

Being [ph] the 100% that I'm talking about this current quarter.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjunwala, Chairman and Managing Director

This is a very normal trend. I mean it would -- it would not be very large for some other companies also.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjunwala, Chairman and Managing Director

See, we do believe that anywhere between 70%, 75%, 80% in that range.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjunwala, Chairman and Managing Director

We're able to operate next year.

Goutam Chakraborty, Analyst

Okay and that's fair. And sir from this, what should we make out of the realization trend in the Graphite Electrode segment. Is there any improvement or some kind of because we got a sense that the realization might not improve because of this depressed steel industry scenario. So how do you see this realization trend going forward?

Ravi Jhunjunwala, Chairman and Managing Director

No realizations in the last couple of quarters had been more or less stable. I mean, we haven't seen much of a drop. Okay.

Ravi Jhunjunwala, Chairman and Managing Director

So obviously, the product mix also plays a part.

Goutam Chakraborty, Analyst

Right.

Ravi Jhunjunwala, Chairman and Managing Director

Orders you -- you get a better price, certain orders you get at within the average price. Moving forward the next 12 months, we do believe that prices will not remain where they are today.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjunwala, Chairman and Managing Director

We're seeing further softening. But as I said needle coke is also softening quite a lot. I mean, we saw fairly substantial reduction in 2013 into 2012.

Goutam Chakraborty, Analyst

Yeah.

Ravi Jhunjunwala, Chairman and Managing Director

That we are more or less in the middle of discussing with all the suppliers for 2014.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjunwala, Chairman and Managing Director

Are -- are similar. I mean, we are seeing a fairly substantial drop in the needle coke prices for 2014.

Goutam Chakraborty, Analyst

So, in the, on an average in the range, if we can say, let's say, around 12% to 15% kind of?

Yeah. You can say, I mean, instead of going into the numbers probably the better way to understand would be, we don't see the margins coming down. Basically, whatever the drop in the electrode price that we expect over the next 12 months probably offset by the reduction in the coke price.

Goutam Chakraborty, Analyst

Okay. So, basically, the Q3 run rate of around almost 20 just more than 20% margin. So, I mean, we can expect about 18% to 20% margin going forward even the graphite electrodes prices remain little lower?

Ravi Jhunjhunwala, Chairman and Managing Director

Yeah, I mean, the only difference will be this 19%, 20% margin that we are talking about is at a very healthy 80%, 85% rate. Going forward the whole, I mean this quarter could be a little more because we're going to operate at 100%.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

It could be like a very stable kind of a number, but more or less, yeah, on an annual basis, we could talk about 18% to 20%.

Goutam Chakraborty, Analyst

Okay. And couple of questions for Mr. Rustogi. Sir, you mentioned the fixed cost mainly being higher than this quarter. So, for depreciation and interest rate, we have seen a substantial increase in this quarter's number. So, going forward, should we expect such kind of run rate or it will be like previous couple of quarters' run rate?

Raju Rustogi, Chief Financial Officer

Depreciation front this is because of capitalization of other assets.

Goutam Chakraborty, Analyst

Yeah.

Raju Rustogi, Chief Financial Officer

As well as the policy of adding the asset value by the exchange fluctuation value, so that also undergoes a change.

Goutam Chakraborty, Analyst

Okay.

Raju Rustogi, Chief Financial Officer

In terms of depreciation, we have still to capitalize about 150 crores worth of asset up appropriately. In terms of interest, the cost, next year I think going forward, I will say this is the highest that we are seeing and it will be lower than these cost.

Goutam Chakraborty, Analyst

Okay. So, going forward the run rate would be lower. And sir, on the tax rate side what should we expect going forward because for last couple of quarters and in this quarter also it has come down the effective tax rate. So, what kind of a rate should we expect in FY'15?

Ravi Jhunjhunwala, Chairman and Managing Director

FY'15 would be similar, I think our tax rate is averaging at 15% for the year.

Goutam Chakraborty, Analyst

Okay. So, it will be almost similar kind of. And sir, can you just more a little bit more elaborate on your deleveraging, I think you've said that you have already repaid all the term loans right?

Ravi Jhunjhunwala, Chairman and Managing Director

The due term loans.

Goutam Chakraborty, Analyst

Okay.

Raju Rustogi, Chief Financial Officer

We haven't paid the entire term loan, Ravi [ph].

Goutam Chakraborty, Analyst

Right. So, going forward how do you plan it. Is there a new plan for year wise or something going forward?

Ravi Jhunjhunwala, Chairman and Managing Director

See, I just want to clarify on this interest part.

Goutam Chakraborty, Analyst

Right.

We have made, we could have made a repayment of about 190 crores.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

Current year. Out of 190 we have already repaid something like 160, 65 by now.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

Next 45 days or so. We will repay the balance 30, 35 crores. The total repayment for this year.

Goutam Chakraborty, Analyst

Yeah.

Ravi Jhunjunwala, Chairman and Managing Director

190 crores.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjunwala, Chairman and Managing Director

Take an average rate of maybe 10%, 10.5% on those.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjunwala, Chairman and Managing Director

But average, I believe is 8%.

Okay.

Ravi Jhunjunwala, Chairman and Managing Director

So, there is a saving of interest on about 190 crores by about 8%.

Goutam Chakraborty, Analyst

Right, right.

Ravi Jhunjunwala, Chairman and Managing Director

Next year and the repayment next year is going to be 200 crores.

Goutam Chakraborty, Analyst

Okay.

Ravi Jhunjunwala, Chairman and Managing Director

So, in the last two, in the current year and the next year the total repayment is as much as 400 crores.

Goutam Chakraborty, Analyst

Almost 400 crores.

Ravi Jhunjhunwala, Chairman and Managing Director

Take about 8%, 8.5% interest on an average. So, going forward next year, the interest cost should drop by about 30 crores, 30 crores. Right.

Goutam Chakraborty, Analyst

Okay, okay, okay. Okay. That's all from my side. Thanks so much.

Operator

Thank you. Our next question is from Preeti Mundhra of Aditya Birla Money. Please go ahead.

Preeti Mundhra, Analyst

Hello, sir. Good evening and congratulations for the Q3 numbers. I want to understand what the current debt level and how much of that is foreign currency denominated and how much is domestic?
Our total debt which includes working capital as well as long-term.

Preeti Mundhra, Analyst

Yeah.

Raju Rustogi, Chief Financial Officer

And out of this 1,175, if I want to break it, it is about 700 in working capital.

Preeti Mundhra, Analyst

Okay.

Raju Rustogi, Chief Financial Officer

About 420 crores. Out of 420 crores 50% is foreign currency denominated.

Preeti Mundhra, Analyst

Okay, okay. Sir and another thing, I mean going forward in the next say six, seven months. Are there any plans for new debt and new CapEx?

Raju Rustogi, Chief Financial Officer

No. It all depends on the industrial environment. We do not see a big surge in the demand situation in FY'14, '15.

Preeti Mundhra, Analyst

Okay.

Raju Rustogi, Chief Financial Officer

So, we want to first occupy our 90% level capacity consistently and then go in for expansion or new addition. We do not -- we do not envisage taking a further debt.

Preeti Mundhra, Analyst

Okay. And sir on the like for FY '14 for year as a whole so we expect full year revenues at similar level to FY '13 or what's the take on that?

Ravi Jhunjhunwala, Chairman and Managing Director Preeti Mundhra, Analyst

For the full year FY '13 for this quarter. So we expect similar revenues as Q3 or higher than that?

Ravi Jhunjhunwala, Chairman and Managing Director

Q4 would be higher than Q3 of current year.

Preeti Mundhra, Analyst

Okay. Thank you, sir. That's all from my side.

Operator

Thank you. Our next question is from Atul Morya [ph] of TCB Bank. Please go ahead.

Unidentified Participant

Good evening, sir. Thank you for the opportunity for asking questions and congratulations for the good set of numbers in Q3. My question is regarding the interest cost is increasing quarter-on-quarter and the company's borrowings -major borrowing is -- in the foreign currency as I understand. So my question is basically two parts, one is the interest cost is increasing as well as the company's exceptional items that is foreign exchange loss the company is facing foreign exchange loss since past many quarters. So what is the company's policy on controlling the interest rate, interest cost as well as setting of foreign currency risk?

Ravi Jhunjhunwala, Chairman and Managing Director

Okay. The interest cost is going up. As I already explained through the denomination of rupee borrowings, as a percentage of total short-term borrowing that we do it has increased in terms of rupee borrowings in the last six months. Why it has increased is because of the volatility in the forex market, where the forward premiums have gone up as high as a percent per annum.

So we have -- we have strategized to replace most of the short-term debt from foreign currency to now in Indian rupees. So if you take what's the interest rate on foreign currency debt, short-term debt is 2%, 2.5%, whereas on rupee debt it is 7.5%. When you see this conversion, you'll see a three times jump in interest, whereas what you are seeing as an increase is about 20% increase from the previous quarter level. The way we have managed that is, we have done it progressively by taking all the incremental debts in rupees and reducing our open position in forex. You will see --

Unidentified Participant

Okay.

Unidentified Speaker Unidentified Participant

And, sir what is about the policy -- policy on controlling foreign exchange rate?

Raju Rustogi, Chief Financial Officer

We have a hedging policy is on which we take provisions going by the market trends and taking views from experts. So, we have a hedging policy and the result of this hedging policy you are seeing in the forex fluctuation number of this current quarter.

Unidentified Participant

Okay.

Raju Rustogi, Chief Financial Officer

And down to (inaudible) and we believe we'll be playing around this number and it will not increase beyond this number in the recent future that I look at.

Unidentified Participant

Okay. Thank you.

Operator

Thank you. Our next question is from Umesh Raut of Equirus Securities. Please go ahead.

Umesh Raut, Analyst

Hello?

Ravi Jhunjunwala, Chairman and Managing Director

Yes.

Umesh Raut, Analyst

Hello.

Ravi Jhunjunwala, Chairman and Managing Director

Sir, please go ahead.

Yeah. Good evening, sir. Congratulations for the good set of numbers. Sir, actually I wanted to know more from the China market. What may be the reasons for slowdown in Chinese market?

Ravi Jhunjunwala, Chairman and Managing Director

That is actually, this China, if you see the past 10 year history, they have been growing at a very fast rate and today they almost made 48%, 49% of all the steel made in the world is made in China, but you see everything as a limit. So, the domestic consumption there of steel considering the rapid industrialization and infrastructure growth which they have done is kind of now slowing down. Rest of the world, anywhere there is lot of steelmaking capacity itself.

So, it is time Chinese production adjust itself to the new realities. So, the rate of growth which they were having is worth anyway on a very higher base is now slowing down on some 10, 8 to 10 levels to 6 in 2013 to 4 to 3.5. So, that is the main reason they have to adjust some timings. They have seen a lot of growth already in the last 10, 12 years.

Umesh Raut, Analyst

Okay. And sir, one more question. On the sir, actually you have mentioned that closure of certain manufacturing facilities would give more opportunities for the company. So, can you please elaborate more on what may be the opportunity then what kind of market share you're targeting?

Ravi Jhunjunwala, Chairman and Managing Director

Yeah. As I said, there have been announcements about closures of three plants in Europe and America.

Umesh Raut, Analyst

Okay.

Unidentified Speaker

About 90,000 tons. And that 90,000 tons more or less represent between 8% and 10% of the total demand for such electrodes.

Umesh Raut, Analyst

Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

Obviously with 10% of the capacity going out of business any small upturn in the market, any small up surge in the demand for electrodes will obviously mean that the prices should increase everybody should start operating at a higher capacity.

Umesh Raut, Analyst Ravi Jhunjhunwala, Chairman and Managing Director

We still have that extra capacity, which we can utilize. I mean as I said, we don't -- we don't think we should be able to operate at more than between 70% and 80%. So, with this closure we'll -- we have this possibility as soon as the market stabilizes, it improves our capacity utilization can go up.

Umesh Raut, Analyst

Okay, okay. Thank you very much sir.

Operator

Thank you. Our next question is from Dewang Sanghavi of ICICI Direct. Please go ahead.

Dewang Sanghavi, Analyst

Good evening, sir. Hello?

Ravi Jhunjhunwala, Chairman and Managing Director

Go ahead please.

Dewang Sanghavi, Analyst

Yeah congrats on good set of numbers. In opening comments, we say that couple of needle coke capacity are coming up in Korea and China. So what could be the installed capacity of this new facilities?

Ravi Jhunjhunwala, Chairman and Managing Director

They are -- it's about 120,000 tons.

Dewang Sanghavi, Analyst

Both included or each. Hello?

Ravi Jhunjhunwala, Chairman and Managing Director

Both included.

Dewang Sanghavi, Analyst

Both included.

We look at it from coke is already in abundant supply with current market situation of electrode and as we just discussed 90,000 tons of electrode capacity has gone out of business.

Dewang Sanghavi, Analyst

Right, sir.

Ravi Jhunjhunwala, Chairman and Managing Director

For needle coke obviously will come down with this 90,000 tons closure. In time, there is an extra availability of 120,000 tons by fourth quarter of this year.

Dewang Sanghavi, Analyst

Okay, sir.

Ravi Jhunjhunwala, Chairman and Managing Director

We put some more pressure on the coke prices.

Dewang Sanghavi, Analyst

Right, sir. And secondly, just wanted to know the shutdown of this capacities of graphite electrodes, don't you think they will have a positive impact on a medium-term when demand kicks in say after -- say two, three years time period?

Ravi Jhunjhunwala, Chairman and Managing Director

This is -- this is -- between 8% and 10% of the total capacity in the world.

Dewang Sanghavi, Analyst

Yes, sir.

Ravi Jhunjhunwala, Chairman and Managing Director

They are all closing down at the same time. They're all talking about June, July, August this year.

Dewang Sanghavi, Analyst

And lastly, I'd like to know the inventory levels of needle coke brief either [ph] are we have some inventory of low cost or probably at that current market rate?

Ravi Jhunjhunwala, Chairman and Managing Director Dewang Sanghavi, Analyst

Sir, I guess your voice is breaking.

Ravi Jhunjhunwala, Chairman and Managing Director

See we -- as I answered in one of the first questions--

Dewang Sanghavi, Analyst

Yes, sir.

Ravi Jhunjhunwala, Chairman and Managing Director

The needle coke prices dropped substantially in 2013 compared to 2012.

Dewang Sanghavi, Analyst

Right, sir.

Ravi Jhunjhunwala, Chairman and Managing Director

And in the -- by middle of 2013 the prices started dropping steeply.

Dewang Sanghavi, Analyst

Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

Obviously, we bought all that needle coke at the lower price. So, some of that needle coke is obviously in the stocks, but going forward the prices are going to take another hit.

Dewang Sanghavi, Analyst

Right.

Ravi Jhunjhunwala, Chairman and Managing Director

We are not carrying substantially large stocks because stocks that we took let's say in October-December quarter. Today are at a higher price because, if I buy the new coke today a much lower price than what we paid in October-December. Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

Won't have very large stocks.

Dewang Sanghavi, Analyst

Okay. Thank you, sir. That answers my question.

Operator

Thank you. Our next question is from Gaurav Malik of Locus. Please go ahead.

Gaurav Malik, Analyst

Hi, sir. Just wanted to quickly get the total debt numbers that you had earlier given out. Your voice was breaking, I can't get those numbers. Is that between working capital and overall loans?

Raju Rustogi, Chief Financial Officer

It is 1,175 crores.

Gaurav Malik, Analyst

Total?

Raju Rustogi, Chief Financial Officer

31st, December, total.

Gaurav Malik, Analyst

Yeah.

Raju Rustogi, Chief Financial Officer

Broken into 700 of working capital.

Gaurav Malik, Analyst

Right.

And balance into short-term debt. So, which is the long-term debt, sorry.

Gaurav Malik, Analyst

Right. And how much of the debt is, sorry, foreign currency denominated?

Raju Rustogi, Chief Financial Officer

50% of the term loans are in foreign currency denominated.

Gaurav Malik, Analyst

All right.

Ravi Jhunjhunwala, Chairman and Managing Director

Both 200 crores basically see you have to also understand in this particular industry, the operating cycle, the production cycle of electrode is very long. So, this short-term debt that you see, the working capital debt that you see to be close to 750 crores more or less means at any point of time you have practically four to five months of stocks.

Gaurav Malik, Analyst

Correct.

Ravi Jhunjhunwala, Chairman and Managing Director

The shortest product gets produced in about two months and the longest product takes as much as six to seven months.

Gaurav Malik, Analyst

Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

The working capital requirement per se in this industry is much larger compared to a normal industry. So, in answer to your question, the total debt is 1,170 about 750 out of that is working capital.

Gaurav Malik, Analyst

Right.

Ravi Jhunjhunwala, Chairman and Managing Director Gaurav Malik, Analyst

Right.

Ravi Jhunjhunwala, Chairman and Managing Director

Is in foreign exchange.

Gaurav Malik, Analyst

And you also mentioned that roughly about 200 crores will be paid down next year, right?

Ravi Jhunjhunwala, Chairman and Managing Director

200 crores will be paid out next year. And we have already paid 190 this year.

Gaurav Malik, Analyst

Right. And after that, it's 1,175, right?

Ravi Jhunjhunwala, Chairman and Managing Director

1,175 is, yes after paying the 190 crores.

Raju Rustogi, Chief Financial Officer

11 just let me clarify. This 1175 is after paying 10 and out of 190.

Gaurav Malik, Analyst

Okay.

Raju Rustogi, Chief Financial Officer

The 40 crores, 45 crores, we have paid in January.

Gaurav Malik, Analyst

Okay. So total -- so total pay down would be another -- from here on there is another 280 crores right?

Ravi Jhunjhunwala, Chairman and Managing Director

Correct. You're right.

Gaurav Malik, Analyst

Okay, okay perfect.

Raju Rustogi, Chief Financial Officer

Out of this foreign exchange debt 200 crores is hedged so we are not exposed to the currency movement there.

Gaurav Malik, Analyst

Right. Okay, okay. Perfect sir. Perfect. Thank you so much. And that's it from my side.

Operator

Thank you. Our next question is from Abhisar Jain of Centrum Broking. Please go ahead.

Abhisar Jain, Analyst

Yeah. Hi, sir, good evening and again congrats for good set of numbers. Sir just wanted to know that our tax rate is running quite low and you have mentioned that for FY '15 also we are expecting similar 15% level sir. So on -- what all benefits we are continuing to get and we expect that to continue in FY '15. Sir, where are we getting the benefits?

Ravi Jhunjhunwala, Chairman and Managing Director

We have a power facility, which has an exemption under income tax profitability for 10 continuous year.

Abhisar Jain, Analyst

Okay. And sir, how much time period is left for that exemption still?

Ravi Jhunjhunwala, Chairman and Managing Director

There are two power plants, one of which will expire in financial year '16, the other one will go off in 2020.

Abhisar Jain, Analyst

I'm sorry, sir your voice is breaking I guess.

Ravi Jhunjhunwala, Chairman and Managing Director

There are two power plants we have.

Abhisar Jain, Analyst Ravi Jhunjhunwala, Chairman and Managing Director

One of which the exemption is going off in financial year '15 '16.

Abhisar Jain, Analyst

Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

Second one will go off still financial year 2020.

Abhisar Jain, Analyst

Okay, okay, okay. And sir second question is on the realizations for the electrodes. Actually sir, what basically we witnessing is that there has been some pressure and the global majors have not been sticking to the pricing which they are announcing per se. And even in Q3, though you have mentioned that you have witnessed kind of stable realizations over the last two quarters but in the industry, it seems that the realizations are coming under pressure some falls I have seen so. Is that understanding correct and do you see effect of the same for HEG in the coming quarters?

Ravi Jhunjhunwala, Chairman and Managing Director

As I already answered this question, our last two quarters have been more or less stable in terms of pricing.

Abhisar Jain, Analyst

Yes.

Ravi Jhunjhunwala, Chairman and Managing Director

Looking forward I also said that there is a pressure on the price. We see some softening on the electrode prices, but that will be probably compensated by the softening of the needle coke prices.

Abhisar Jain, Analyst

Okay. But sir, any ballpark range would you like to mention on the kind of realization fall that we're seeing from say last year's CY '13 to CY '14 what kind of realization pressure would be an approximate guess?

Ravi Jhunjhunwala, Chairman and Managing Director

Yes, it's based on about 35%, 40% of the order book that we currently have balance about 60% is yet to be booked. So, taking a guess on that 50%, 60% that we still need to book on an average my guess at this time would be anywhere in the range of 5% to 7%. Okay. That's very helpful, sir. And sir, finally on the needle coke price fall wherein, I think the negotiations are still to get finalized within next two, three months, it will happen. But what kind of fall do you see considering these dynamics and electrode pricing being under pressure?

Ravi Jhunjhunwala, Chairman and Managing Director

See, if I give you a percentage, but that will not mean much. But a more clear answer would be the drop that we are expecting on the electrode side should be more than compensated by the drop in the needle coke price.

Abhisar Jain, Analyst

Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

So, we don't expect the margin to be squeezed any further.

Abhisar Jain, Analyst

Okay.

Ravi Jhunjunwala, Chairman and Managing Director

To more or less balance the drop in the electrode price by the drop of needle coke.

Abhisar Jain, Analyst

Okay, okay. That's great, sir. Thanks a lot and best of luck.

Ravi Jhunjunwala, Chairman and Managing Director

The needle coke prices have dropped two, three times in the from 2013 to now. So, if you compare it with 2012, the drop is very significant. It's something like 40%, 45%.

Abhisar Jain, Analyst

Okay. Okay, sir. That's great. That's great. Thanks.

Operator

Thank you. Our next question is from Apurva Mehta of KSA Shares & Securities. Please go ahead.

Apurva Mehta, Analyst Ravi Jhunjunwala, Chairman and Managing Director

See it's in the range of about 75%.

Apurva Mehta, Analyst

75%. So, does it mean that this 90,000 whenever it gets closed that capacity utilization we can keep it at 85%?

Ravi Jhunjunwala, Chairman and Managing Director

The companies who have announced these closures obviously their capacity utilization will increase.

Apurva Mehta, Analyst

Yeah.

Ravi Jhunjunwala, Chairman and Managing Director

Although the total tonnage may not increase, but capacity utilization obviously should go up.

Apurva Mehta, Analyst

So, overall capacity utilization of the world will definitely go up. So, there will be very less capacity left for the next book. Can we, if there is any change in demand or anything?

Ravi Jhunjhunwala, Chairman and Managing Director

See in case of one company, the American company they have announced 60,000 tons closure.

Apurva Mehta, Analyst

Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

So, with that 60,000 tons they will probably operated more than 90%, 95%.

Apurva Mehta, Analyst

Okay, okay.

They have been operating at a level of about 180,000, 190,000 tons.

Apurva Mehta, Analyst

Yeah. Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

The capacity of 250.

Apurva Mehta, Analyst

Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

If they close down 60,000 tons they will virtually be operating at 90%, 95, 100% close to 100%.

Apurva Mehta, Analyst

Okay, okay.

Ravi Jhunjhunwala, Chairman and Managing Director

And this closure of 90% as I said is representing about 8% to 10% of the total capacity of the world.

Apurva Mehta, Analyst

Okay, okay.

Ravi Jhunjhunwala, Chairman and Managing Director

It is pretty substantial.

Apurva Mehta, Analyst

Yeah. But what any reason for this closing down or this because of cost or what is the reason behind that?

Ravi Jhunjhunwala, Chairman and Managing Director

No, first of all, they probably don't see that capacity requirement for the next couple of years. Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

Is where high cost capacities in any case because they were all in the western world. Their fixed costs are much higher than what we have in our country.

Apurva Mehta, Analyst

Okay. Sir, what is your outlook of '15, '16, if you can see something for globally. It will be improvement over this year, '14, '15?

Ravi Jhunjhunwala, Chairman and Managing Director

Very early to say that basically as I said we do expect to run at between 70% and 80% capacity.

Apurva Mehta, Analyst

Okay.

Ravi Jhunjhunwala, Chairman and Managing Director

We expect to more or less maintain the margins at the current level.

Apurva Mehta, Analyst

Okay, okay.

Ravi Jhunjhunwala, Chairman and Managing Director

More than that it's too early I mean. We're still in January, February only.

Apurva Mehta, Analyst

Okay, okay. Okay. Thanks a lot and wish you all the best.

Operator

Thank you. Our next question is from Rajesh Zawar of Anand Rathi. Please go ahead.

Rajesh Zawar, Analyst

Yeah. Sir, just one question. What would you guide for the tax rate this year and next year sir? The effective tax rate, as I have said is 15% going to be 15% for this year and next year right.

Rajesh Zawar, Analyst

Okay. Sorry, sir. I would, I have missed the earlier part of the call. So, if there is anything, I mean, this tax rate for 15% would continue for further in '16 also something like that or this is particular benefit which is flowing through this year, this two years?

Ravi Jhunjhunwala, Chairman and Managing Director

If you take benefit on power resources that we have.

Rajesh Zawar, Analyst

Okay, okay. So, that's the only tax shield which is available. That's the, that's which is bringing down the tax rate. So, that would be exhausted by somewhere closer to FY'15?

Ravi Jhunjhunwala, Chairman and Managing Director

By '16.

Rajesh Zawar, Analyst

By FY'16. It will be exhausted, this tax shield will be exhausted.

Ravi Jhunjhunwala, Chairman and Managing Director

You see we have two power plants and we have this tax shelter for 10 years.

Rajesh Zawar, Analyst

Right, sir.

Ravi Jhunjhunwala, Chairman and Managing Director

One of them gets over in the -- by the -- at the end of calendar financial year '16.

Rajesh Zawar, Analyst

Okay.

Ravi Jhunjhunwala, Chairman and Managing Director Rajesh Zawar, Analyst

Okay. So, effectively the tax rate will move in that lines from FY'16 some--

Ravi Jhunjhunwala, Chairman and Managing Director

Half of it will go away in March 2016.

Rajesh Zawar, Analyst

Right.

Ravi Jhunjhunwala, Chairman and Managing Director

The other half will continue till March 2020.

Rajesh Zawar, Analyst

Right, sir. Correct. Sir, second question was regarding that you have been-- you have mentioned very clearly on your focus towards

the cash flow which you are generating regarding the deleveraging and looking at consolidating the balance sheet that's there. So, what should we look at as a -- from your strategy perspective, what should we look at the number towards as either on the net debt to EBITDA or net debt to equity what number should we look at a range, which you would like to maintain?

Ravi Jhunjhunwala, Chairman and Managing Director

See out of our total debt of about 1,170 crores about 750 is short-term, is working capital.

Rajesh Zawar, Analyst

Right sir.

Ravi Jhunjhunwala, Chairman and Managing Director

And in this particular industry at any particular time we will need that kind of a debt because production cycle itself is very long.

Rajesh Zawar, Analyst

Right.

Unidentified Speaker

The quickest product gets produced between 50 and 60 days, longest ones take more than 6 to 7 months. So at any particular time in the furnaces, we have huge stock of inventory in the work in process that leaves about 420 crores of long-term debt that we have. Out of that 420 we-- this 420 is after repaying about 110 crores. In this year up till now, we are going to repay another 80 crores between now and April. Our current -- our total -- our long-term debt, which is currently 420 will come down to something like 340.

Rajesh Zawar, Analyst

Okay. So, just on that, I mean say just a follow-up on that would be -- would you -- how would you look at I mean say from, if I look at the current, if I look at per ton or per unit contribution which I look at it and the cash generation, which would happen over next four to six quarters pose that what should we look at from as a cash deployment strategy going ahead from here?

Ravi Jhunjhunwala, Chairman and Managing Director

Calculate. As I said in the current year 2013, total debt repayment, long-term debt repayment is about 190 crores.

Rajesh Zawar, Analyst

Right, sir.

Ravi Jhunjhunwala, Chairman and Managing Director

The next 12 months between April '14 to March '15 it is another 200.

Rajesh Zawar, Analyst

Right.

Ravi Jhunjhunwala, Chairman and Managing Director

For these two years, we are repaying about 390 crores.

Rajesh Zawar, Analyst

Right, sir.

Ravi Jhunjhunwala, Chairman and Managing Director

Of long-term debt.

Rajesh Zawar, Analyst

Right sir.

So in March 2015, our total long-term debt balance to be repaid is about 160 crores. So, which has to be repaid over the next three years. So, our repayments starting from 2015 March are only going to be about 60 crores versus about 190 crores, 200 crores that we have been doing now.

Rajesh Zawar, Analyst

Right, sir.

Ravi Jhunjhunwala, Chairman and Managing Director

Obviously and that average debt is at about 8%, 8.5%.

Rajesh Zawar, Analyst

Right, sir.

Ravi Jhunjhunwala, Chairman and Managing Director

And that saving is going to be there, I mean, partly it is already there, we have repaid 190 crores this year, another 200 crores, as I said, in the coming 12 months.

Rajesh Zawar, Analyst

Right, sir. Will do, will do, sir. That's all from my side.

Operator

Thank you very much. Ladies and gentlemen that was our last question. I now hand the floor back to the management for closing comments.

Ravi Jhunjhunwala, Chairman and Managing Director

Thank you, friends. I look forward to seeing you with our final results at the end of April, early May. And we do hope to come back with better numbers in the current quarter. Thank you.