



HEG/SECTT/2018

1st February, 2018

1	BSE Limited 25 th Floor, P J Towers Dalal Street MUMBAI - 400 001. Scrip Code : 509631	2	National Stock Exchange of India Limited Exchange Plaza, 5th Floor Plot No.C/1, G Block, Bandra - Kurla Complex Bandra (E), MUMBAI - 400 051. Scrip Code : HEG
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Sub: Investors presentation on the Unaudited Financial Results of the Company for the quarter & nine months period ended 31st December, 2017.

Dear Sir,

Please find enclosed a copy of Investors presentation on the unaudited financial results of the Company for the quarter & nine months period ended 31st December, 2017 for your information and record please.

Thanking you,

Yours faithfully,
For **HEG LIMITED**


(VIVEK CHAUDHARY)
COMPANY SECRETARY

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Encl : as above

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Q3 of FY18 Investor Update Presentation

HEG Limited – Profile

- ❖ HEG Limited is a leading graphite electrode manufacturer & exporter Globally.
- ❖ The company produces two grades of graphite electrodes - Ultra High Power (UHP) & High Power (HP) - used in producing steel through the Electric Arc Furnace (EAF) route.
- ❖ Exports approximately 60% of its production to about 30 countries around the world.
- ❖ Diversified customer portfolio –supplying large proportion of our volumes to top 20 steel companies of the world.
- ❖ Graphite electrodes manufacturing plant (capacity of 80,000 tons per annum) located at Mandideep in Madhya Pradesh - is the largest single-site facility in the world
- ❖ Captive power generation capacity of around 76.5 mw (2 thermal power plants & 1 hydro power plant)

Global Steel Industry

- ❖ World Steel Association (WSA), reported a growth of 5.3 % in world crude steel production to 1691 million tons for CY'17 vs CY'16 .

Crude Steel Production	2014	2015	2016	Change 2016 vs.2015	2017	Change 2017 vs.2016
World	1669	1620	1606	-0.9%	1691	5.3%
China	822	803	787	-2.0%	832	5.7%
World without China	847	817	819	0.2%	859	4.9%

Growth Areas	% ↑	% of world pdn
Middle East	11.8	1.9
Africa	15.9	0.8
Asia	5.7	68.7
EU	4.1	10
S. America	0.7	2.6
N. America	4.8	6.9
CIS	0	6

India produced 101.4 mmt crude steel posting a growth of 6.2% in CY'17 vs CY'16

CHINESE CRACKDOWN ON POLLUTING INDUSTRIES CONTINUES

- ❖ In the beginning of this year due to serious environmental concerns, the Chinese Government decided to crack down on about 12-15 highly polluting industries leading to closure of almost 140 million mt of Induction furnace capacity and about 25-30 million tons of mini blast furnaces.
- ❖ Nearly 300,000 mt of graphite electrode manufacturing capacity has also been shut down in China
- ❖ Additionally, there is a sudden drop of Chinese steel export to 75 mmt in 2017 from appx 115 mmt in 2016, to the rest of the World.
- ❖ China was also exporting substantial quantity of Semi-finished Steel in the form of Billets which is believed to be came down sharply from 35mmt in 2016 to 7-8mmt in 2017 thereby resulting in higher melting through EAFs further increasing the electrode demand

CHINESE CRACKDOWN ON POLLUTING INDUSTRIES CONTINUES

- ❖ Recent winter cut of 36 mmt in 5 months would further reduce China's exports of steel & billets, thereby helping other countries increase their steel production leading to more demand of electrodes
- ❖ The Ministry of Industry and Information Technology (MIIT) announced a new policy effective from January 1 to ensure zero growth of steel capacity in 2018
- ❖ Policy forbids plants from increasing capacity. New measure requires capacity replacement in Beijing and 6 other provinces to keep the ratio at 1.25:1 level or more. For other regions the ratio become higher than 1:1, effectively reducing steel capacity
- ❖ New rules encourage the replacement of old converters with EAFs and would result in net EAF steel capacity expanding. Steelmakers can replace converter capacity into EAF capacity at a 1:1 ratio

CHINESE CRACKDOWN ON POLLUTING INDUSTRIES CONTINUES

- ❖ Strong demand of GE continues however Needle coke supply continues to be tight and suppliers are offering similar tonnages as last year and prices valid for one quarter only, withdrawing from past practice where they used to give prices valid for one year. Our efforts are on to organize as much coke as possible.
- ❖ Reasonably large part of needle coke continues to be used in Lithium Ion batteries, which has limited the production capabilities of all the electrodes producers around the world
- ❖ Closures of around 200,000 mt of electrodes capacities outside China, closures of another appx 300,000 mt capacities in China, sharp reduction in finished steel exports from China along with a sharp reduction in billet exports from China , large closures of steel capacities in China – all these factors resulted into supply and demand imbalance of electrodes and a spurt in the demand of electrodes in all parts of the world, incl India and have led to a sharp increase in prices of electrodes

Financial Snapshot

in Rs. Crore (except EPS)

	Q3 FY18	Q2 FY18	Q3 FY17	FY17
Net Operating Income	842.71	409.54	251.25	896.02
EBITDA*	562.80	192.29	30.45	87.86
EBITDA Margin	66.79%	46.95%	12.12%	9.81%
EBIT	543.92	174.09	12.13	13.94
EBIT Margin	64.54%	42.51%	4.83%	1.56%
PAT	342.11	113.67	(3.51)	(50.05)
PAT Margin	40.60%	27.76%	(1.40)%	(5.59)%
EPS	85.62	28.45	(0.88)	(12.52)

* EBITDA includes Other Income

Segmental Performance – Graphite Electrodes

in Rs. Crore

	Q3 FY18	Q2 FY18	Q3 FY17	FY17
Net Sales	831.29	407.01	242.65	870.25
Export (% of sales)	65%	63%	66%	60%
EBITDA Margin	64.8%	43.3%	(0.4)%	(1.78)%
EBIT Margin	62.9%	39.6%	(6.66)%	(8.81)%

- Capacity utilisation at around 84% during the Qtr. Order book healthy.
- The realization pmt have improved during the qtr, with the ratio of supplies on old contracted rates, coming down vis a vis the spot rates.
- Both imported and domestic raw material and input prices have increased significantly due to increased demand, the full impact of which is expected in Q4.

Segmental Performance – Power

in Rs. Crore

	Q3 FY18	Q2 FY18	Q3 FY17	FY17
Net Sales	69.32	52.17	64.04	216.93
EBITDA Margin	34.7%	29.7%	47.7%	47.6%
EBIT Margin	30.2%	23.7%	43.1%	41.7%

- Tawa nagar hydro facility is rain dependant and as expected, ran though out Q3 affecting both the top line and bottom-line positively.
- Vis a vis Q3 FY17, inadequate supplies of coal from govt company SECL, forced the thermal unit to procure high priced coal from the market, affecting its margins negatively.
- Capacity utilization in this segment is fully dependant on graphite requirement and is inching up accordingly.

Future Outlook

- ❖ Consolidation in Graphite Electrode Industry coupled with rising demand will help in improving capacity utilization going forward
- ❖ Production through EAF route is expected to be higher in China as well as in the rest of the world
- ❖ Electrode sale prices are expected to stabilize at improved levels considering supply-demand tightness
- ❖ Improved margins of steel industry is foreseen in the near term

Thank You



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