
# Q1 FY14 Investor Update Presentation

HEG Limited
World Winning Quality

# HEG Limited - Profile

- **Leading manufacturer** and exporter of graphite electrodes in India
- One of the **lowest cost** producers of graphite electrodes
- Strong presence in value added **Ultra High Power (UHP)** segment
- **Diversified customer portfolio** - POSCO, US Steel, Arcelor Mittal and Nucor Corp.
- Graphite electrodes manufacturing plant in Mandideep – Rated **capacity at 80,000 MT**
- The **largest single-site graphite electrodes manufacturer** in the world
- **Captive power** generation of **77 MW** provides **reliability & self-sufficiency**

# Steel Sector Scenario

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

* WSD – "World Steel Dynamics", leading Steel Information Service Provider

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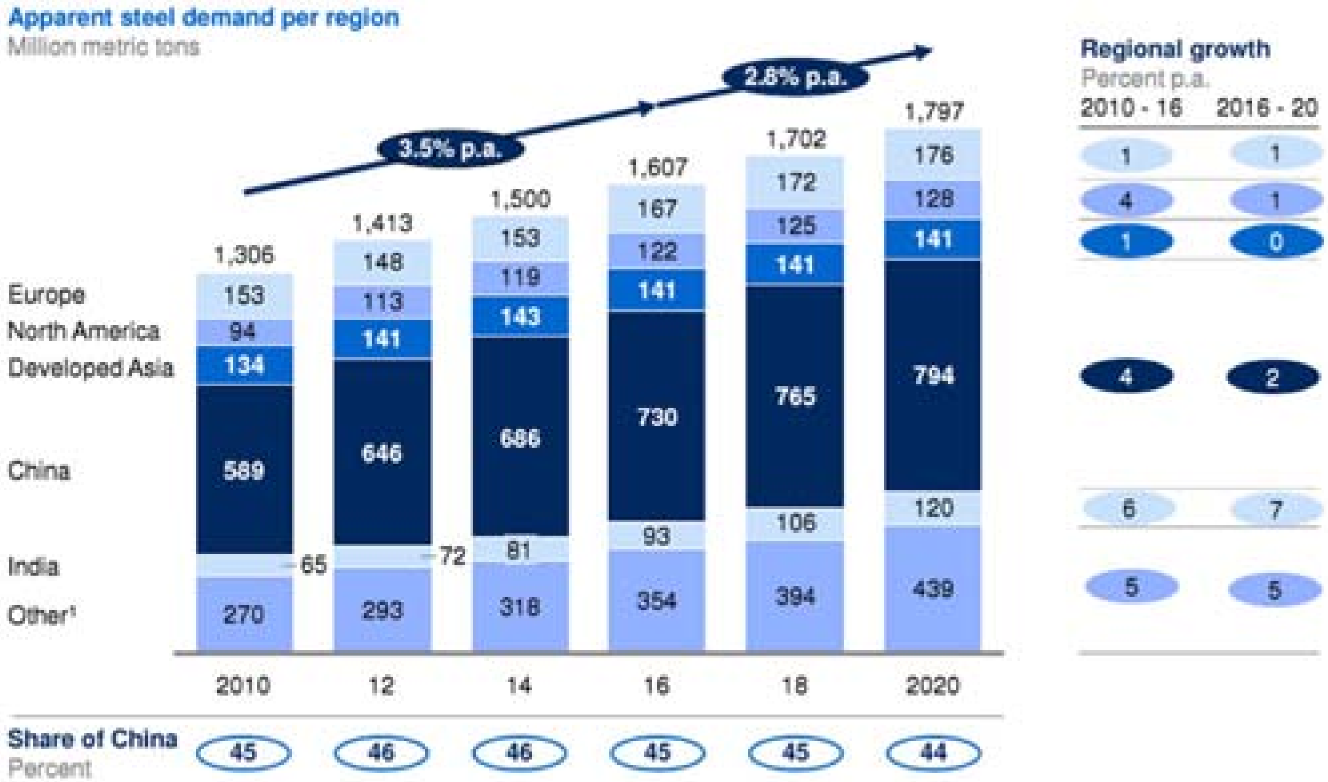
# Evolution of Steel Demand & Outlook

## Evolution of World Steel Demand & Projections (finished steel)




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

Source – World Steel Association

## Apparent steel use (crude steel equivalent)

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

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# Outlook for EAF Capacities

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

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# Graphite Electrodes Market Scenario

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

# Condensed Statement of Operations

In Rs. Crore

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



* EBITDA includes Other Income & excludes Exceptional Items

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# Segmental Performance - Graphite

In Rs. Crore

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

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

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# Segmental Performance - Power

In Rs. Crore

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

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

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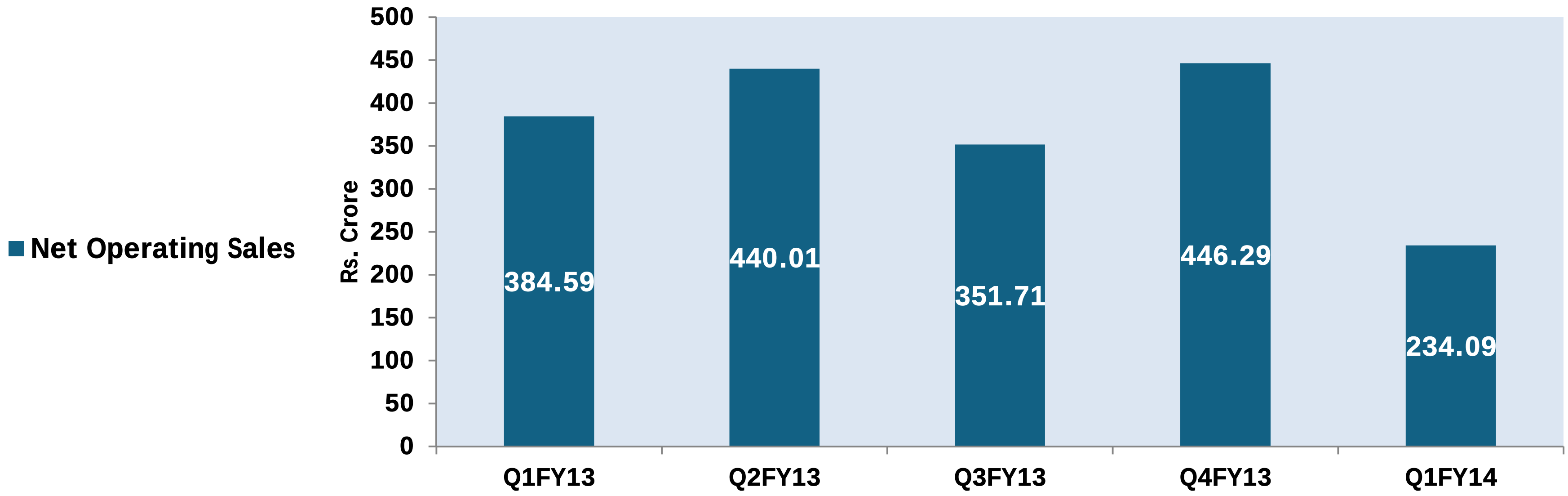
# Financial Snapshot (over last 5 quarters)

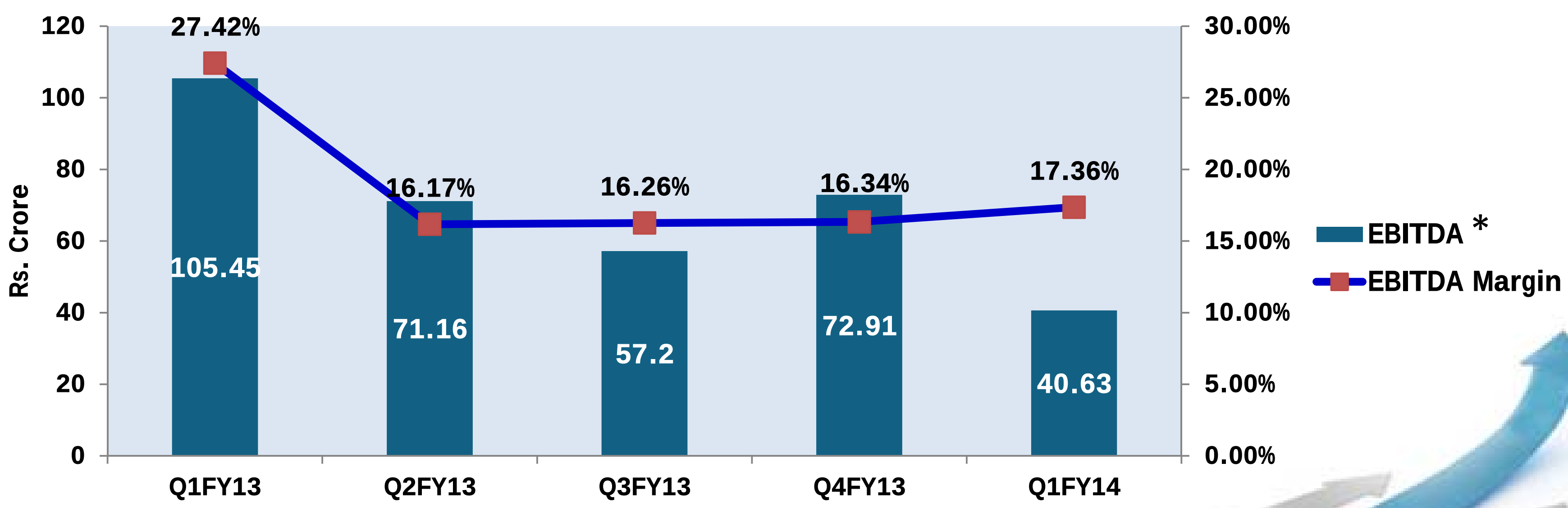
In Rs. Crore (except EPS)

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

* EBITDA includes Other Income & excludes Exceptional Items

# Financial Snapshot (graphical presentation)

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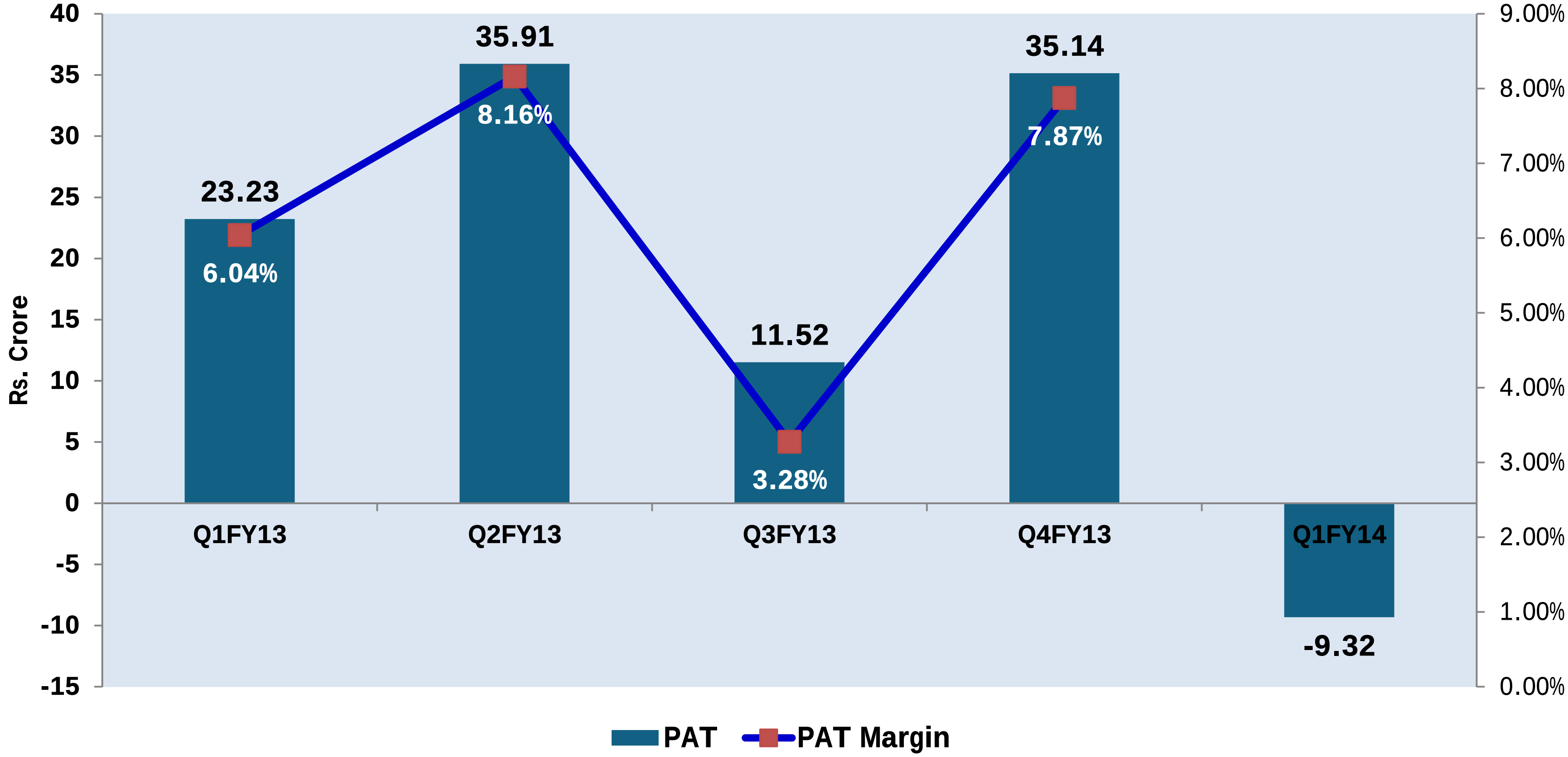

# Performance Outlook

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

# Thank You

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