HEG Limited

Q4 & FY2012 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 at 80,000 MT
- The **largest single-site graphite electrodes manufacturer in the world**
- **Captive power** generation of **77 MW** provides **reliability** & **self-sufficiency**

Sector Perspective

- **World crude steel production for Q1 CY2012 was 377 Mt, 1.1% higher that Q1 CY2011**

  (Source: World Steel Association)

- **Global apparent steel use will increase by 3.6% to 1,422 Mt in 2012, following growth of 5.6% in 2011**

  (Source: World Steel Association)

- **World steel demand in 2013 is expected to grow further by 4.5 % to around 1,486 Mt**

  (Source: World Steel Association)

- **Major risk factors which may affect forecasts are**
  - The uncertain Euro-zone debt crisis and slow growth in USA
  - High oil prices and the geopolitical tensions in the oil producing regions

  (Source: World Steel Association)

- **Graphite Electrodes demand based on steel produced via the EAF route**
  - Continued growth trajectory expected for steel produced through the EAF route in the long run

Expansion – Graphite Electrodes

- **Commercial production has commenced on the expanded capacity; 80,000 tons rated capacity fully functional**
  - HEG is the world's largest single-site producer
    - Low cost, Brownfield expansion
    - State-of-art, integrated facility
    - Economies of scale to improve further
  - Adequate needle coke supplies available for expanded capacities
  - Captive power of total rated capacity of 77MW to support additional production
    - 2 thermal power plants of total ~63.5 MW benefit from coal linkages
    - ~ 13.5 MW Hydel-power plant operations provide low-cost power
  - Strong graphite electrodes demand trajectory to support higher volumes
    - Production of steel through the EAF route is on the rise

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Performance Perspectives

- HEG displays healthy operational performance
- Capacity utilization in the high 80% range for the quarter
  - Annual capacity utilisation in the 90 % range
- Going forward capacity utilization rates expected to sustain in high 80% range
- Graphite electrode demand expected to be supported by positive steel demand
  - Margin expansion may happen as price increases accrue
- Exports continue to maintain momentum
- Challenges in the power division during the quarter include
  - Rise in coal costs
  - Lower coal available through the linkage route
  - Hydel power plant subjected to seasonality

Performance Perspectives

- **Financial highlights**
  - Needle Coke pricing for CY 2012 fixed at an increased but competitive price
  - Graphite electrode prices have shown some increase, partially offsetting the Needle Coke price increase
  - Domestic input costs show an increasing trend
  - Exceptional items represent FX losses on account of Hedging positions taken and FX fluctuations on borrowings
  - Hedging reserve represents foreign currency fluctuations on unmatured hedging positions
- Balance sheet continues to remain strong and sustainable

Highlights

- Net Sales in FY2012 higher by 27.9% at ₹ 1,424.0 crore as compared to ₹ 1,113.7 crore in FY2011
- EBIDTA (before exceptional items) in FY2012 rises by 4.9% at ₹ 258.6 crore from ₹ 246.9 crore in FY2011
- EBIT (before exceptional items) in FY2012 increases by 5.9% at ₹ 200.7 crore from ₹ 189.5 crore in FY2011
- EBT (before exceptional items) in FY2012 at ₹ 160.0 crore from ₹ 168.0 crore in FY2011
- PAT in FY2012 at ₹ 62.3 crore from ₹ 128.9 crore in FY2011
- EPS (Basic) in FY2012 at ₹ 15.3 from ₹ 30.1 in FY2011

Management views

Commenting on the current scenario, Mr. Ravi Jhunjhunwala, Chairman and Managing Director, HEG Limited, said:

" I am very proud to share that LNJ Bhilwara Group has completed 50 successful years, marking its Golden Jubilee celebrations.

HEG Limited, which has been part of the LNJ Bhilwara group since 1972, also completes 40 years since incorporation. Since 1977, when the facility was set up, the Company has grown into a successful, leading, global graphite electrode manufacturing company. Today, we have developed, mature relations with a prestigious list of global customers. We also transact with the best global suppliers to source our key raw materials.

Over time, the Company has gradually expanded its graphite electrode capacity from 10,000 tons to the current rated capacity of 80,000 tons. With the first expansion in the 80's till the current expansion in 2012, we have continually aimed at improving our technology at every stage towards developing world class graphite electrodes.

I take this opportunity to thank all those who have stood by us and supported us through this glorious journey. It is our endeavor to continue our journey and follow greater paths of success. "

Management views

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

" The steel sector is portraying a stable growth rate in a challenging and uncertain environment while the EAF sector growth continues to be very encouraging.

The quarter under review exhibited salient operational performance. The core business of graphite electrodes has shown considerable expansion in sales. While margins remained stable, we do expect improvement going forward.

The power division has been under pressure during the quarter due to a few reasons. Firstly the hydel power plant at Tawa was operational only for one month, due to its seasonal nature. Secondly the coal costs have been on the rise and thirdly, coal supply from the linkage route was lower than usual levels.

Overall, the graphite electrodes environment is improving, with prices and realisations exhibiting a moderate upward trend. We have secured our needle-coke supplies for the whole year at competitive rates, taking into account the expanded capacity. "

Financial performance – A review

Revenues:

- Net Revenues increased by 44.7% at ₹ 407.4 crore in Q4 FY2012 as compared to ₹ 281.6 crore in Q4 FY2011
- Volume growth to sustain as utilisation levels remain robust

Particulars (₹ crore)	Q4 FY2012	Q4 FY2011	Shift (%)	FY2012	FY2011	Shift (%)
Net Revenues:	407.4	281.6	44.7	1,424.0	1,113.7	27.9

Financial performance – A review

Total Expenditure:

- Domestic input costs continue to increase
- Coal cost on the rise; trend expected to continue going forward
- Interest cost has increased due to increased spreads; on account of tighter liquidity situation

Particulars (₹ crore)	Q4 FY2012	Q4 FY2011	Shift (%)	FY2012	FY2011	Shift (%)
Total Expenditure	335.0	237.7	40.9	1,182.4	894.1	32.2
(Increase) / Decrease in Stocks	(0.4)	(42.5)	NA	4.5	(117.7)	NA
Consumption of Raw Materials	200.1	162.3	23.3	694.5	613.0	13.3
Power & Fuel (Net of Interdivisional purchases)	32.9	16.8	95.8	105.4	68.3	*54.3*
Staff Cost	12.1	15.0	(19.3)	47.2	51.8	(8.9)
Other Expenditure	90.3	86.1	4.9	330.8	278.7	18.7

Financial performance – A review

EBIDTA:

- EBIDTA (before exceptional items) higher by 18.4% at ₹ 76.8 crore in Q4 FY2012 from ₹ 64.9 crore in Q4 FY2011
- Q4FY2012 margins shaped by higher costs and reduction of other income

Particulars (₹ crore)	Q4 FY2012	Q4 FY2011	Shift (%)	FY2012	FY2011	Shift (%)
EBIDTA before exceptional items	76.8	64.9	18.4	258.6	246.9	4.9
EBIDTA Margins (%)	*18.9*	*23.1*	NA	*18.2*	*22.1*	NA

Financial performance – A review

- Profit Before Tax in Q4 FY2012 rises by 13.6% at ₹ 48.5 crore as compared to ₹ 42.7 crore in Q4 FY2011
- In Q4 FY2012, the Company reported a FX loss of ₹ 48.2 crore attributable to FX losses on account of Hedging positions taken and FX fluctuations on borrowings

Particulars (₹ crore)	Q4 FY2012	Q4 FY2011	Shift (%)	FY2012	FY2011	Shift (%)
PBT before exceptional items	48.5	42.7	13.6	160.0	168.0	(4.8)
PAT	5.0	34.4	(85.5)	62.3	128.9	(51.7)
PAT Margins (%)	*1.2*	*12.2*	NA	*4.4*	*11.6*	NA
EPS (Basic) not annualised	*1.2*	*8.0*	*(84.7)*	*15.3*	*30.1*	*(49.2)*
EPS (Diluted) not annualised	*1.2*	*8.0*	*(84.7)*	*15.3*	*30.1*	*(49.2)*

Segmental results – Graphite electrodes

- Q4 FY2012 revenues reflect a growth of 45.5% at ₹ 400.3 crore as compared to ₹ 275.1 crore in Q4 FY2011 due to
  - Higher sales volumes
  - Capacity utilization at an optimum level
  - Healthy realisations during the quarter
- PBIT increases by 54.9% at ₹ 48.8 crore from ₹ 31.5 crore
  - Margins sustained at 12% for the quarter
  - Volumes are expected to improve going forward
- Order booking continues on an average of rolling 3-6 month basis

Particulars (₹ crore)	Q4 FY2012	Q4 FY2011	Shift (%)	FY2012	FY2011	Shift (%)
Revenues	400.3	275.1	45.5	1,394.7	1,079.4	29.2
PBIT	48.8	31.5	54.9	142.4	140.1	1.6
Return on sales (%)	*12.2*	*11.5*	NA	*10.2*	*13.0*	NA
Capital Employed	936.2	779.8	20.1	936.2	779.8	20.1

Segmental results - Power

- 3 power plants under operation with a total capacity of around 77 MW provide reliability and self-sufficiency
  - Two thermal power plants at Mandideep (30 MW+33 MW)
  - Hydroelectric power plant at Tawa (13.5 MW)
- Full year margins maintained
- Quaterly performance affected due to:
  - The Hydroelectric power plant was not operational for much of Q4 FY2012, being seasonal in nature
  - Coal costs have been on the rise
  - Costs higher due to reduction of supply through linkage route; supply has been normalising during the current quarter

Particulars (₹ crore)	Q4 FY2012	Q4 FY2011	Shift (%)	FY2012	FY2011	Shift (%)
Revenue	54.0	53.7	0.6	215.8	196.7	9.7
PBIT	9.2	18.7	(50.8)	48.7	46.5	4.7
Return on sales (%)	17.0	34.8	NA	22.6	23.6	NA
Capital Employed	216.7	225.8	(4.0)	216.7	225.8	(4.0)

In summary

- **Commercial production has commenced on the expanded capacity**
  - Total rated capacity of 80,000 tons
  - To augment performance over time
- **Global economic conditions continue to remain volatile and uncertain**
  - Euro zone debt crisis affecting the world at large
- **Graphite Electrode outlook is encouraging**
  - Steel and EAF sector performance expected to improve
  - Further price improvement expected in the future
  - Realisations are expected to trend upwards
- **Margin improvement expected going forward**
- **Cautious cost outlook**
  - Cost pressures continue to affect performance

In summary

- **Improvement in operating performance likely**
  - With expanded capacities in place, the Company is expected to capture higher market share
  - Graphite electrodes division to benefit from expected rise in volumes, prices and realizations, and stock of Needle Coke procured at lower prices
  - Power division margins expected to stabilize given better linkage coal availability
- **Model remains focused and robust**
  - HEG has secured its place as the world's largest single site producer of graphite electrodes
  - Economies of scale and low cost production are the key points by which the Company benefits
  - Key raw materials – needle coke and power
    - Secured Needle coke requirement
    - Even at expanded capacity levels, captive power continues to provides sufficient supply

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.

The Company has recently expanded Graphite Electrode capacities from 66,000 MT to 80,000 MT, consolidating its position as the largest single-site integrated graphite electrode facility in the world. The graphite electrode plant is located at Mandideep, near Bhopal.

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 ₹ 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% if 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.

Contact details

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