HEG Limited

Q2 & H1 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 of 66,000 MT being expanded to 80,000 MT per annum
- The **largest single-site graphite electrodes manufacturer in the world**
- **Captive power** generation of **77 MW** provides **reliability** & **self-sufficiency**

Sector Perspective

- **Steel Industry data for CY shows significant growth**
  - 9M CY2011 world crude steel production higher by 9.7% as compared to 9MCY2010

    (Source: World Steel Association)

- **2011 and 2012 expected to witness strong rise in steel demand**
  - 2011 world steel demand expected to increase 5.9%; 2012 growth rate to be at 6%

    (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
  - Initial data for 2011 shows worldwide EAF steel production has come back very close to its peak levels of 2007 and expected to go beyond this in 2012

Performance Perspectives

- **Q2 FY2012 reflects constrained operational performance**
  - Operating performance got muted on account of;
    - Increased cost of domestic inputs
    - Adverse forex movement on working capital borrowings
  - Annual capacity utilization at high level and expected to maintain a high rate
  - Growing steel demand expected to support graphite electrode production
  - Thermal plant operations normal; power generation started on time at Tawa
  - Hedging reserve for adverse forex fluctuation as per AS-30
    - Adjustment of Rs. 60 crore against Reserve & Surplus

Performance Perspectives

- **Operational highlights**
  - Assured supply of Needle coke continues for CY 2011
  - Adequate power supply for 80,000 tons graphite electrodes production level
    - 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 presence in international & domestic markets; focus on market expansion
- **HEG consolidates position as world's largest single site plant of Graphite Electrodes**
  - Phase I of capacity expansion to 80,000 MT commenced operations
  - Phase II and final capacity expected to be on board by Q3 FY2012
- **Financial highlights**
  - Realizations of graphite electrodes move marginally northward
  - Domestic cost pressures on the rise
  - Contained financing cost despite of increasing interest cost environment
  - Balance sheet remains strong and sustainable

Performance Perspectives

- **Buy Back of Equity Shares**
  - Buy-back of fully paid equity shares at a price not exceeding Rs. 350 per share, announced in Q4 FY2011
  - Total buyback not to exceed Rs. 67.5 crore being 9.95% of total paid up capital and free reserves as on March 31, 2010
  - Last date for buyback – March 13, 2012
  - Buyback completed to the extent of 99%

Highlights

- Net Sales in Q2 FY2012 at ₹ 319.2 crore as compared to ₹ 299.6 crore in Q2 FY2011
- EBIDTA at ₹ 44.2 crore in Q2 FY2012 from ₹ 55.2 crore in Q2 FY2011 before exceptional items
- EBIT at ₹ 33.9 crore in Q2 FY2012 from ₹ 46.1 crore in Q2 FY2011 before exceptional items
- EBT at ₹ 14.6 crore in Q2 FY2012 from ₹ 42.5 crore in Q2 FY2011
- PAT in Q2 FY2012 reported at ₹ 13.5 crore from ₹ 29.7 crore in Q2 FY2011
- EPS (Basic) in Q2 FY2012 at ₹ 3.29 from ₹ 6.94 in Q2 FY2011

Expansions – Graphite Electrodes

- Phase I of capacity expansion from 66,000 TPA to 80,000 TPA which commenced in March, 2010 is operational
- Full capacity commercial production is expected to be operational by Q3 FY2012
  - Expansion anchored by revival in demand growth of graphite electrodes due to higher production of steel through the EAF route
- An investment of approximately ₹ 275 crore earmarked for the expansion
  - Total expansion capex being funded through debt and internal accruals
- Expansion will consolidate HEG's position as the largest single-site producer of Graphite Electrodes in the world
  - Low cost, Brownfield expansion
  - Economies of scale to improve further
- Timing of capacity expansion is well positioned for the next steel up cycle as volume visibility is strong going forward

Management views

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

" I am glad to share that HEG is poised to reap the fruits of its expansion program. The second phase of the 80,000 will be fully operationalized in the coming quarter, consolidating HEG's position as the largest single site producer of graphite electrode across the world.

We are placed very favourably with this new capacity as the steel sector looks set for good performance in medium to long term. We are optimistic that the share of EAF production within steel making will continue to rise; giving HEG a larger stake in the graphite electrode business globally. Our focus therefore is to ramp-up the new capacities optimally. We see an improved uptake for our UHP grade electrodes globally.

As regards realisations we are optimistic and expect the average pricing to trend upward in the new year. We are secure with regards to needle coke availability and will have sufficient quantity for our expanded capacities as well. Negotiations for the new calendar year will commence shortly and we are positive that our requirements will be met.

We want to consolidate HEG as a globally relevant and high-quality producer of graphite electrodes. "

Management views

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

" I am pleased to share that our expansion to 80,000 tonnes is nearing completion. Our operating performance has got moderated on account of increasing cost of domestic inputs. Meanwhile, our volume momentum continues to build.

Although we are comfortably placed with respect to raw material for our planned production, there is a significant increase in the domestic raw material sourcing cost given the volatility in petrochemical product prices.

Our order book continues to grow stronger and we are prepared to deliver healthy capacity utilization. Our utilizations continue to maintain in the high 80s'. We remain assured in supplies of needle coke and expect the finalization of next CY prices soon.

We believe that we have a robust foundation and are skillfully equipped to support and adhere to upcoming growth opportunities and translate them into better operational and financial performances in the near future. "

Financial performance – A review

Revenues:

- Net Revenues stood at ₹ 319.2 crore in Q2 FY2012 as compared to ₹ 299.6 crore in Q2 FY2011
- Volumes expected to maintain momentum.

Particulars (₹ crore)	Q2 FY2012	Q2 FY2011	Shift (%)	H1 FY2012	H1 FY2011	Shift (%)
Net Revenues:	319.2	299.6	6.5	598.7	521.8	14.7

Financial performance – A review

Total Expenditure:

- Import prices USD remain stable; Rupee depreciation resulted into higher costing
  - Needle coke prices remain stable;
  - Other raw material costs were significantly higher
- Interest cost has remained stable due to competitive borrowing arrangements

Particulars (₹ crore)	Q2 FY2012	Q2 FY2011	Shift (%)	H1 FY2012	H1 FY2011	Shift (%)
Total Expenditure	275.0	244.4	12.5	512.8	409.5	25.2
(Increase) / Decrease in Stocks	(12.4)	(9.6)	NA	(20.4)	(69.7)	NA
Consumption of Raw Materials	181.4	142.4	27.4	321.1	290.7	10.5
Power & Fuel (Net of Interdivisional purchases)	19.8	20.7	(4.3)	48.4	36.1	34.1
Staff Cost	10.7	10.5	1.9	22.1	20.7	6.8
Other Expenditure	75.5	80.5	(6.2)	141.6	131.7	7.5

Financial performance – A review

EBIDTA:

- EBIDTA stood at ₹ 44.2 crore in Q2 FY2012 from ₹ 55.2 crore in Q2 FY2011
- Margins in Q2 FY2012 affected by higher domestic raw material costs and adverse forex movement on working capital borrowing

Particulars (₹ crore)	Q2 FY2012	Q2 FY2011	Shift (%)	H1 FY2012	H1 FY2011	Shift (%)
EBIDTA before exceptional items	44.2	55.2	(19)	86.0	112.3	(23.4)
EBIDTA Margins (%)	*13.9*	*18.4*	NA	*14.4*	*21.5*	NA

Financial performance – A review

- Profit Before Tax in Q2 FY2012 at ₹ 14.6 crore as compared to ₹ 42.5 crore in Q2 FY2011
- In Q2 FY2012, the Company reported a forex loss of ₹ 11.6 crore

Particulars (₹ crore)	Q2 FY2012	Q2 FY2011	Shift (%)	H1 FY2012	H1 FY2011	Shift (%)
PBT	14.6	42.5	(65.7)	39.6	77.0	(48.6)
PAT	13.5	29.7	(54.6)	33.3	56.3	(40.9)
PAT Margins (%)	*4.25*	*9.9*	NA	*5.7*	*10.8*	NA
EPS (Basic) not annualised	3.29	6.94	(53)	8.08	13.14	(38.5)
EPS (Diluted) not annualised	3.29	6.94	(53)	8.08	13.14	(38.5)

Segmental results – Graphite electrodes

- Revenues stood at ₹ 313 crore in Q2 FY2012 as compared to ₹ 293.7 crore in Q2 FY2011
  - Operating momentum maintained on account of better capacity utilization
  - Increasing volumes during the quarter
  - Growth in steel production through the EAF route drive volumes
- Q2 FY2012 PBIT at ₹ 20.1 crore from ₹ 40.4 crore
  - Margins show the impact of higher domestic input costs and Rupee depreciation on working capital borrowings
  - Volume growth anticipated going forward
- Continual Order booking on an average of rolling 3-6 month basis
- Needle coke assured supply continues for CY 2011 - negotiations for CY 2012 to be completed in this quarter

Particulars (₹ crore)	Q2 FY2012	Q2 FY2011	Shift (%)	H1 FY2012	H1 FY2011	Shift (%)
Revenues	**313**	**293.7**	**6.6**	**590.3**	**502.4**	**17.5**
PBIT	**20.1**	**40.4**	**(50.2)**	**42.4**	**72.1**	**(41.1)**
Return on sales (%)	***6.4***	***13.8***	NA	***7.2***	***14.4***	NA
Capital Employed	**804.1**	**617**	**30.3**	**804.1**	**617**	**30.3**

Segmental results - Power

- Revenues were at ₹ 56.6 crore in Q2 FY2012 from ₹ 45.3 crore in Q2 FY2011
- Earnings performance influenced by
  - Generation related costs increased on account of higher input prices
  - Higher contribution from the hydel power plant at Tawa
- 3 power plants under operation with a total capacity of around 77 MW
  - Two thermal power plants at Mandideep (30 MW+33 MW) – provide cost-effective and dependable power supply throughout the year; coal linkage received for thermal power plants support operations
  - Hydroelectric power plant at Tawa (13.5 MW)

Particulars (₹ crore)	Q2 FY2012	Q2 FY2011	Shift (%)	H1 FY2012	H1 FY2011	Shift (%)
Revenue	56.6	45.3	24.9	97.3	92.8	4.9
PBIT	12.3	4.7	161.7	18.9	14	35.2
Return on sales (%)	21.7	10.4	NA	19.4	15.1	NA
Capital Employed	227.6	242.9	(6.3)	227.6	242.9	(6.3)

In summary

- **80,000 MT capacity to be operational in Q3 FY2012; phase I operational from Q1 FY2012**
  - To augment performance once implemented
- **Graphite Electrode outlook is encouraging**
  - Performance of the Steel and EAF sector observed to be positive
  - Capacity expansion to accrue higher volumes going forward
  - Gradual improvement recorded in realizations
- **Cautious cost outlook**
  - Needle coke costs are stable; supply is adequate;
    - Needle coke $ costs are stable (increase in Rupee cost on account of $ appreciation)
  - Increased pressure on domestic input prices
  - Lower finance costs to augment earnings

In summary

- **Operational performance to continue to be positive**
  - Volume growth is visible

- **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
  - Market share improvement aimed for by expanding customer base

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.

HEG Limited currently operates a 66,000 MT graphite electrode plant at Mandideep, near Bhopal. The company has earlier invested ₹ 725 crore between 2002-09 in upgrading graphite electrode production capacity and setting up its own captive power plants. The Company is expanding its capacity to 80,000 MT of Graphite Electrodes by third quarter of FY 2012 making it by far the largest single-site integrated graphite electrode facility in the world.

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.

HEG

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