HEG Limited

Q2 & H1 FY2013 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 nine months of 2012 was 1,149 Mt, a marginal increase of 0.6% compared to the same period of 2011**
  - July - September 2012 production was higher as compared to the corresponding period

(Source: World Steel Association)

- **Global apparent steel use expected to increase by 2.1% in 2012, following growth of 6.2% in 2011**

(Source: World Steel Association)

- **World steel demand in 2013 is expected to grow further by 3.2 % to a record high of 1,455 Mt**

(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
- **Industry majors have announced price hikes of 8-9% for new orders**

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Performance Perspectives

- **HEG reflects robust operational performance**
- **Capacity utilization at around 85% for the quarter**
  - Going forward capacity utilization rates expected to remain good
- **Graphite electrode demand expected to be supported by steel demand**
- **Exports continue to maintain momentum**
- **HEG consolidates position as world's largest single site plant of Graphite Electrodes**

Performance Perspectives

- **Financial highlights**
  - Graphite electrode prices stable
  - Lower cost needle coke inventory acquired last year has been exhausted; current year needle coke stock acquired at increased but competitive rates
  - Power division profits robust as compared to corresponding period
  - Exceptional item represents FX gain of Rs. 3.61 crore
- Balance sheet continues to remain strong and sustainable

Highlights

- Net Sales in Q2 FY2013 higher by 38% at ₹ 439.8 crore as compared to ₹ 319.2 crore in Q2 FY2012
- EBIDTA (before exceptional items) in Q2 FY2013 rises by 48% at ₹ 71.2 crore from ₹ 47.9 crore in Q2 FY2012
- EBIT (before exceptional items) in Q2 FY2013 increases by 64% at ₹ 55.5 crore from ₹ 33.9 crore in Q2 FY2012
- EBT (before exceptional items) in Q2 FY2013 higher by 52% at ₹ 39.7 crore from ₹ 26.1 crore in Q2 FY2012
- PAT in Q2 FY2013 rises robustly by 165% at ₹ 35.9 crore from ₹ 13.5 crore in Q2 FY2012
- EPS (Basic) in Q2 FY2013 at ₹ 9.0 from ₹ 3.3 in Q2 FY2012

Management views

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

"The current macro-economic situation is defined by problems in the European markets and sluggish growth in USA. Overall volatile market conditions continue to impact most sectors unfavorably.

The steel industry has grown moderately over the quarter under review and revised forecasts indicate lower but sustainable growth rates. Production of steel through the EAF route continues to grow at a stable pace and is expected to convert into higher demand for graphite electrodes.

HEG Limited has evolved over the years, into a competitive and reputed global manufacturer of graphite electrodes. I am pleased to share that despite the current challenging business environment, HEG Limited's operational and financial performance has been positive.

Going forward, the Company's unique strengths and business advantages are expected to encourage greater flexibility and faster growth in a conducive business environment."

Management views

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

"The Company has delivered robust operational and financial performance during the quarter under review; for both graphite electrode and power divisions.

Capacity utilisation of graphite electrodes has shown remarkable improvement. We continuously work towards enhancing productivity whilst focusing on cost efficiencies. Needle coke stock procured last year at lower prices has now been exhausted and we have started operating with needle coke which was procured in the current year at higher but competitive rates. The order book is steadily firming up in the current sustainable EAF environment.

The power division has been performing well supported by linkage coal for the thermal plants and resumption of operations of the hydel power plant.

Going forward, we aim at further optimizing our earnings and enhancing further operational efficiencies "

Financial performance – A review

Revenues:

- Q2 FY2013 Net Revenues higher by 38% at ₹ 440.0 crore as compared to ₹ 319.3 crore in Q2 FY2012
- Volume growth sustainable at current utilisation levels

Particulars (₹ crore)	Q2 FY2013	Q2 FY2012	Shift (%)	H1 FY2013	H1 FY2012	Shift (%)
Net Revenues:	440.0	319.3	37.8	824.6	599.0	37.7

Financial performance – A review

Total Expenditure:

- Domestic input costs continue to show an increasing trend
- Coal costs higher as compared to corresponding period; trend expected to continue going forward mitigated by better linkage coal
- Interest cost has increased due to:
  - Increased borrowings on account of recent expansion of the graphite electrode facility
  - Increased spreads on Y-on-Y basis

Particulars (₹ crore)	Q2 FY2013	Q2 FY2012	Shift (%)	H1 FY2013	H1 FY2012	Shift (%)
Total Expenditure	371.9	275.1	35.2	653.4	513.1	27.4
(Increase) / Decrease in Stocks	5.5	(12.4)	NA	(41.8)	(20.4)	NA
Consumption of Raw Materials	227.8	181.4	25.5	431.4	321.1	34.3
Power & Fuel (Net of Interdivisional purchases)	28.3	19.8	43.0	58.7	48.4	21.5
Staff Cost	13.5	10.7	25.6	27.0	22.0	22.7
Other Expenditure	96.9	75.6	28.1	178.0	141.9	25.4

Financial performance – A review

EBIDTA:

- Q2 FY2013 EBIDTA (before exceptional items) higher by 48 % at ₹ 71.2 crore from ₹ 47.9 crore in Q2 FY2012
- Q2FY2013 margins rise but are affected by
  - Exhaustion of lower cost needle coke inventory
  - Higher input costs

Particulars (₹ crore)	Q2 FY2013	Q2 FY2012	Shift (%)	H1 FY2013	H1 FY2012	Shift (%)
EBIDTA before exceptional items	**71.2**	**47.9**	**48.4**	**176.6**	**92.2**	**91.5**
EBIDTA Margins (%)	***16.2***	***15.0***	NA	***21.4***	***15.4***	NA

Financial performance – A review

- Q2 FY2013 Profit Before Tax rises by 198% at ₹ 43.3 crore as compared to ₹ 14.6 crore in Q2 FY2012
- In Q2 FY2013, the Company reported a forex gain of Rs.3.6 crore
- Hedging Reserve owing to adverse currency fluctuations on derivatives at Rs.0.65 crore

Particulars (₹ crore)	Q2 FY2013	Q2 FY2012	Shift (%)	H1 FY2013	H1 FY2012	Shift (%)
PBT	43.3	14.6	197.9	68.7	39.6	73.8
PAT	35.9	13.5	165.2	59.1	33.3	77.6
PAT Margins (%)	*8.2*	*4.2*	*NA*	*7.2*	*5.6*	*NA*
EPS (Basic) not annualised	9.0	3.3	173.3	14.8	8.1	83.2
EPS (Diluted) not annualised	9.0	3.3	173.3	14.8	8.1	83.2

Segmental results – Graphite electrodes

- Q2 FY2013 revenues rise by 37% at ₹ 430.2 crore as compared to ₹ 313.0 crore in Q2 FY2012 due to
  - Higher sales volumes
  - Higher capacity utilization rate
  - Healthy realisations during the quarter
- Q2 FY2013 PBIT increases by 56% at ₹ 31.3 crore from ₹ 20.1 crore
  - Margins improve on the back of higher volumes
  - Volumes are expected to remain at decent levels
- Order book is growing at a steady pace and continues on an average of rolling 3-6 month basis

Particulars (₹ crore)	Q2 FY2013	Q2 FY2012	Shift (%)	H1 FY2013	H1 FY2012	Shift (%)
Revenues	**430.2**	**313.0**	**37.4**	**810.9**	**590.3**	**37.4**
PBIT	**31.3**	**20.1**	**55.6**	**97.7**	**42.4**	**130.3**
Return on sales (%)	*7.3*	*6.4*	NA	*12.1*	*7.2*	NA
Capital Employed	**1,077.2**	**804.1**	**34.0**	**1,077.2**	**804.1**	**34.0**

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)
- Margins increase as compared to corresponding period
- Quarterly performance influenced by:
  - Resumption of contribution from the hydel power plant at Tawa
  - Higher input prices continue to account for higher generation related costs
  - Coal costs have been on the rise for the thermal capacities; linkage coal availability has stabilised

Particulars (₹ crore)	Q2 FY2013	Q2 FY2012	Shift (%)	H1 FY2013	H1 FY2012	Shift (%)
Revenue	67.7	56.7	19.5	123.9	97.6	27.0
PBIT	23.1	12.3	87.9	44.4	18.9	135.3
Return on sales (%)	*34.1*	21.7	NA	*35.8*	19.3	NA
Capital Employed	210.0	227.6	(7.7)	210.0	227.6	(7.7)

In summary

- **Slower than expected growth due to the global financial crisis**
  - Europe continues to face recessionary conditions due to fiscal and financial strains
  - USA has been expanding since mid-2009, but the pace of recovery is very slow
  - Emerging markets face major challenges related to exports, inflation, weak domestic demand
- **Cautious cost outlook to be maintained**
- **However stability of margins is expected due to operating enhancements**
  - Stable steel sector demand is expected to give impetus to the EAF sector and in turn the Graphite Electrodes market
  - Graphite electrodes division to benefit from increased volumes and realizations
  - Power division margins expected to grow on account of resumption of hydroelectric power plant operations and as linkage coal availability stands stabilised, thereby mitigating coal cost increase for the thermal power plants

In summary

- **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 requirement is secured
    - Needle coke available in adequate supplies
    - Even at expanded capacity levels, captive power continues to be sufficient

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.