



PROUD TO BE INDIAN
PRIVILEGED TO BE GLOBAL

HEG/SECTT/2017

6th November, 2017

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 & half year ended 30th September, 2017.

Dear Sir,

Please find enclosed a copy of Investors presentation on the unaudited financial results of the Company for the quarter & half year ended 30th September, 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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Q2 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 5.6 % in world crude steel production to 1266 million tons for first 9 months in 2017 vs the same period in 2016

Crude Steel Production	2014	2015	2016	Change 2016 vs.2015	2017 (Jan - Sep)	Change 2017 vs.2016 (Jan -Sep)	Growth Areas	% ↑	% of world pdn
World	1670	1615	1628	0.80%	1266	5.6%	Middle East	14.2	1.9
World without China	848	816	820	0.50%	628	5.0%	Africa	13.8	0.8
China	822	799	808	1.10%	638	6.2%	Asia	5.9	69.1
							EU	4.1	10
							S. America	8	2.6
							N. America	3.5	6.8
							CIS	0	6

- ❖ India produced 75.30 mmt steel posting a growth of 5.7%
- ❖ WSA forecasts global steel demand will reach 1,622 Mt in 2017 and 1648 Mt in 2018 from 1516 Mt in 2016

China's pollution crackdown & Graphite electrodes Scenario

- ❖ Due to Crackdown on pollution by Chinese Government from January'2017 led to closure of some identified highly polluting industries by June'17
- ❖ Induction Furnace steel and Mini Mill capacity of more than 100 million ton has been closed down in H1 2017, producing mainly low quality long steel products.
- ❖ This led to a tremendous shortage of Steel in China
- ❖ These Furnaces were using Steel Scrap which has now become available in China due to which the prices have dropped, making EAF Steel production more competitive thus leading to increase in demand of Graphite Electrodes.
- ❖ China has been exporting appx. 115 – 120 mmt of finished Steel to more than 200 countries for past couple of years leading to reduced production in these countries

China's pollution crackdown & Graphite electrodes Scenario

- ❖ Chinese exports of steel products were 5.1 million tonnes in September'17, the lowest monthly total since February 2014. Exports over the first nine months of the year slumped by almost 30% to 60 million tonnes.
- ❖ New installation of EAF furnaces will result in an additional requirement of electrodes to the tune of around 100,000 mt in China over the next 2-3 years, over and above another 80,000 – 100,000 mt this year due to drop in exports of Steel and Billets in 2017, facilitating other countries to increase their own Steel production .
- ❖ An estimated 300,000 metric tons/year, around one third of China's graphite electrode capacity shut over the past year because this is a pollutant industry
- ❖ Chinese electrode exports could slump from 200,000 mt in 2016 to 100,000 mt this year, as supply-side reform and a sharper pollution focus have bitten into working capacity

China's pollution crackdown & Graphite electrodes Scenario

- ❖ In the Western World, appx 200,000 mt graphite electrodes capacities have closed down in past 3 to 5 years, thus bringing down the supplies
- ❖ Graphite Electrode Prices Have Risen Sharply due to Supply Tightness. Raw materials suppliers unable to meet demand from electrode manufacturers
- ❖ The main raw material Needle Coke is finding an alternate usage in the industry to make Lithium Ion batteries thus putting pressure on supply side
- ❖ Some large steel companies like Outokumpu, AK Steel, Republic Steel have introduced electrode surcharge on their finished steel prices which would be updated monthly

Financial Snapshot

in Rs. Crore (except EPS)

	Q2 FY18	Q1 FY18	Q2 FY17	FY17
Net Operating Income	409.54	213.71	203.71	896.02
EBITDA*	192.28	24.12	19.10	87.78
EBITDA Margin	46.95%	11.28%	9.37%	9.80%
EBIT	174.08	6.33	1.32	13.87
EBIT Margin	42.51%	2.96%	0.65%	1.55%
PAT	113.66	(8.43)	(14.09)	(50.10)
PAT Margin	27.75%	(3.94)%	(6.92)%	(5.59)%
EPS	28.44	(2.11)	(3.53)	(12.54)

* EBITDA includes Other Income

Segmental Performance – Graphite Electrodes

in Rs. Crore

	Q2 FY18	Q1 FY18	Q2 FY17	FY17
Net Sales	407.01	212.42	196.64	870.25
Export (% of sales)	63%	63%	55%	60%
EBITDA Margin	43.2%	1.53%	(2.4)%	(1.78)%
EBIT Margin	39.8%	(5.41)%	(10)%	(8.81)%

- Capacity utilisation at around 85% during the Qtr. Order book healthy.
- 2nd Qtr supplies were combination of old price contracts and spot prices, and hence the realizations are healthy.
- Both imported and domestic raw material and input prices are showing a sharp uptrend.

Segmental Performance – Power

in Rs. Crore

	Q2 FY18	Q1 FY18	Q2 FY17	FY17
Net Sales	54.56	54.24	58.14	216.93
EBITDA Margin	37.1%	38.5%	39.2%	47.6%
EBIT Margin	31.6%	32.8%	28.2%	41.7%

- Tawa nagar hydro facility is rain dependant and did not operate in Q2 as there was deficit rainfall in the catchment area.
- Inadequate supplies from SECL, forced the thermal unit to procure high priced coal from the market.
- Capacity utilization in this segment is fully dependant on graphite requirement and is inching up accordingly.

Future Outlook

- ❖ There is a structural change both on the demand side of electrodes and also the supply, with the closure of graphite plants in china recently and also in US and Europe, in last 3-4 yrs.
- ❖ There is a surge in demand of electrodes globally, with the enhancement of steel production activities using Electric Arc Furnace route. Also, the future prospects of steel making using Electric Arc furnace route in china has improved as it is less polluting, than blast furnace route.
- ❖ Availability of needle coke continues to pose challenges to the electrode makers in achieving higher capacity utilisation.
- ❖ Any growth in capacity in the graphite electrode space, takes minimum of 18-24 months.

Thank You



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