



“HEG Limited Q1 FY17-18 Earnings Conference Call”

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the HEG Limited Q1 FY17-18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ravi Jhunjhunwala, Chairman and Managing Director, HEG Limited. Thank you and over to you, sir.

Ravi Jhunjhunwala: Good afternoon friends, and welcome to HEG's first quarter 2017-18 conference call. I would today like to start by briefing you on some developments, primarily led by China, which have had a fairly positive impact on the graphite electrode industry. Early this year the Chinese government decided to crack down on about 12 to 15 highly polluting industries due to serious environmental concerns. As you know in addition to blast furnaces and electric arc furnaces, use of induction furnaces is very prevalent in countries like India and China. Induction furnaces are highly inefficient and polluting way of producing steel. And China decided to close down all of its induction furnaces totally by end of June this year. Till a couple of months ago this figure was said to be around 40 million to 50 million tonnes. But as it turns out, as per some recent data available from Chinese authorities, this number could be as high as 120 million tonnes. In addition to this, they also seem to have shut down another 40 million to 50 million tonnes, of what they call mini blast furnaces. So if these figures are correct, all these figures total up to approximately 175 million tonnes of closures of, let us say, inefficient steel production.

The resultant impact of this major development has been A) a sudden drop of export of steel from China to the rest of the world. As you are aware, China used to export about 115 million to 120 million tonnes per annum of finished steel for last couple of years. This is now likely to drop to somewhere in the region of 60 million to 70 million tonnes in the current year, thus helping an equivalent additional production of steel outside of China, which would obviously include about 25% to 30% through electric arc furnaces, where electrodes are required. B) In addition to export of finished steel as above, China was also exporting substantial quantities of semi-finished steel in the form of billets. This has also come down sharply in the past few months, with the result more steel is being produced in those countries which were importing billets from China until now. We believe this figure could also be around 20 million tonnes and this kind of steel is primarily produced by EAF, electric arc furnaces, which means that this additional 15 million to 20 million tonnes of billets, which are no more exported, somewhere in the world, an additional 15 million to 20 million tonnes of electric arc furnace production is happening. Thirdly, in China, in addition to integrated graphite plants like those in India and in the western world, there are many small plants that only perform 1 or 2 of the 6 processes required for electrode making. These are very disintegrated kind of small plants. Many of these one process plants have been closed down again due to environmental reasons, thus breaking the total chain of electrode production and reducing electrode production in China itself. We have no idea about what this number could be, but it can be as high as

anywhere in the region of 150,000 tonnes. Fourthly, all this has resulted in a shortage of not only steel, but also of electrodes within China. China, which was a large exporter of low grade electrodes to rest of the world has suddenly become an importer of all types of electrodes, UHP and non-UHP, thus vacating a substantial part of this market of electrodes to other producers like us.

Friends, all this has happened in the backdrop where the graphite industry, which passed through an extremely bad period in the last 3-4 years had to resort to shutting down a capacity of around 200,000 tonnes in the form of 6 to 7 graphite plants in the western world, due to a large demand-supply imbalance. In addition to whatever we spoke about China, the world steel production in the first half of the current year has gone up by 4.5% as compared to only 0.8% last year. So this additional growth of 3.7% steel in the first half of the current year has also led to an additional demand of electrodes this year. So all-in-all, the sudden increase in the demand of electrodes due to a combination of all the above factors, at a time when 200,000 tonnes of electrodes capacity has been shut down, has further compounded the problem. And all this has resulted into a sudden spurt in the demand of electrodes from all parts of the world, including China. However, as you know, traditionally in our industry, a large part of our order book is committed at the beginning of the year, and this year was no exception. I believe most of the electrode industry around the world had committed a significant part of their current year's production at previous year's very low prices, by the time, this China led development started getting noticed from February-March onwards. And as such, major impact of this sudden demand spurt along with a spurt in electrode prices could not be seen in the current year. However, I also believe that there are still some uncommitted quantities available with most of the electrode producers, where we would see an impact of increased prices in the current year. However as I said earlier, the full impact of higher electrode prices would only be seen after 2-3 quarters. On the cost front, needle coke prices and the costs of most of the other domestically procured raw materials have also started going up substantially. Besides the electrode industry is also facing a constraint in getting enough needle coke in the current year due to some major shutdowns in various calcination plants around the world.

In summary, I would like to state that we are fairly optimistic about the graphite electrodes after a long time, for at least the near term. We expect to run our operations in the region of 80% to 85% for the whole year of our capacity, and as we start selling more and more electrodes at higher spot prices in the next few quarters, we expect to deliver much better results.

Friends with this, I would now request Mr. Rustogi to take you through the financials, and then we would be very happy to answer all your questions. Thank you.

Raju Rustogi:

Good afternoon friends. This is R. Rustogi from HEG. A quick review of the numbers for the quarter ending June 2018. For the quarter ended June 2018 HEG recorded a net operating income of 213 crores as against 267 crores in the previous quarter. And EBITDA, including other income, which stood at 30 crores in the previous quarter reduced to 24 crores in the current quarter. The principal difference being the non-operation of Tawa Hydro Power

facility, as it is seasonal in nature and stops towards the beginning of March every year. Company reported a net loss of 8.43 crores as against 3.86 crores in the previous quarter. This turnover reduction is a factor of both volume and reduced prices. The customers were serviced orders booked prior to February 2017, and there has been a significant change in the industry scenario as a result of China development which were explained by our Chairman just a while ago. The impact on volume was primarily towards the end of June 17, wherein some of the customers requested us to defer supplies post GST implementation on 1st July, 2017. So we carried stock to that extent and those are getting delivered or those have already been delivered in July.

On the cost front there has been a significant increase in the cost of materials, and as a percentage to sale, there has been increase which is primarily due to increase in raw material, both domestic and imported. And also the sale prices of graphite electrode remaining almost same as that of last year. So as a percentage when the sale price is same and the cost of raw material increases, the percentages as a percentage to sales also increase. Net sales and also the segment results in Power segment are lower than previous quarter. As I explained it is because of the hydro power generating facility, which did not operate during the quarter, being rain dependent and hence seasonal in nature. Total debt, as on date, which is 30th June, not as on date, because as on 30th June stands at 677 crores as against 686 crores as on 31st March, 2017. And this 677 comprises of 278 crores of term debt.

I think that is all from my side in terms of the review of financial numbers and we are open to taking questions.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. We will take the first question from the line of Sanjay Dam from Old Bridge Capital. Please proceed with your questions.

Sanjay Dam: I saw in your presentation that the capacity utilization was around 71% during the quarter. If I look at your only other peer in the Indian market, the standalone utilization level was almost 95% vis-à-vis 68% last year, I don't know what our utilization level was. So the outlook has been fantastic. I can understand the difference in the lag of when we get our price hikes in the finished good and the fact that there is some constraint in needle coke. But is that the entire explanation why capacity utilization was very low during the quarter?

Ravi Jhunjunwala: See, as I said for the whole year, the capacity utilization is going to be in the region of 80%, 85%. And as you rightly observed, we had no inkling of such a major development which happened, let us say, early this year. So by the time these developments came to the light and by the time there was some sort of a panic in the market for electrodes, a lot of time had already passed. So by the time everybody started gearing up, everybody started getting more and more coke and the electrode demand started going up, obviously there was a lag between what was planned earlier and what was planned now. So 3 months ago, we would not have been talking about a utilization of 80%, 85%. So basically...

- Sanjay Dam:** Yes. So going by that logic sir, you and others in the industry commit large portion of their capacities, or the production that they see themselves doing towards the beginning of the year. So would it be a logical conclusion to say that the production that you foresaw 3 months back or 4 months back when the situation was not as exciting as it is now and you would have made proportionate commitments and the fact that your capacity utilization is much lower, gives you a position where you are now in a situation where you can produce much more, because 84%-85% for the full year versus 71% in 1Q is quite a catch up to do. So can one assume that incrementally, vis-à-vis other players, a larger portion of your production can be committed at higher levels than your peers. Sir, it is a logical conclusion, right, because you would have had a schedule of x amount of production at the beginning of the year.
- Ravi Jhunjunwala:** Obviously what you are saying is logical, and you are right partly to the extent that when we made our annual plan, annual budget, we were not planning on 80%, 85% in any case. And there was no demand and there was no order book requirement to produce 80%, 85%. All this started happening, and by the time it all happened, it was already let us say mid-March to end-March, something like that. And I guess everybody is in the same boat. So everybody had plans on a lower scale and everybody is now clamoring to produce as much as they can. So yes, there is a lot of catch up to be done, what you are saying is absolutely right, from 71%-72% to an average of 80%-85% within the balance 9 months, yes, there is a lot of catching up to do.
- Moderator:** Thank you. We'll take the next question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Sir, the first question for utilization has already been answered. Now, coming to the raw material basket part. Sir, could you give the first split up of raw materials in terms of percentage, what is the needle coke and the remaining pitch and other is, if we take the total RM part.
- Ravi Jhunjunwala:** You are talking in terms of what? Value?
- Saket Kapoor:** In percentage terms sir, how much is constituted. What is your raw materials basket in percentage terms of various ingredients?
- Ravi Jhunjunwala:** See, in a typical year it would be somewhere in the region of one-third, two-third times. But it is a very dynamic situation and what has made a major change is because of China. You see in China as we spoke, there are 2 types of issues. One is there is suddenly a huge shortage of steel because of this closure of a lot of capacities. And secondly, there are also lots of closures of the graphite plant. And mainly in graphite plant, as I said, in addition to some integrated plants like all of us have, in China they have lots of these, one process, two process shops, where electrodes are moving from one shop to another shop, to third location to the fourth location. So that chain is in some major locations. And so if one of the chain is broken between the 6 processors, so obviously the other 3, 4 or 5 which are surviving also get affected. So as we all have said in the past, Chinese are mainly into not very good quality ultra high power

electrodes. They are more into the regular grade and the lower grade. So a lot of that market has suddenly been opened up, which was for many years part of China's dominance. So to give you an exact number is not very easy, because it's a very dynamic situation and things are changing extremely fast and extremely different directions. One day you see something on the UHP side, the other day you see something on the non-UHP side. It is an extremely exciting situation to be in. We are really caught unawares on a practically daily basis, I would say.

Saket Kapoor: Sir, to be precise, the 113 is the raw material cost for this quarter. If we split up into the entire raw material basket, how much will be the needle coke and then the other constituent?

Ravi Jhunjunwala: I mean, Mr. Rustogi can probably give you a better answer. But, I am sure it is in that region, one-third, two-third. It could couple of percentages plus, minus.

Saket Kapoor: The highest is the needle coke part only.

Ravi Jhunjunwala: Yes, higher one is the needle coke one.

Raju Rustogi: Yes, the two-third, Saket, is the imported coke, which is needle coke part.

Saket Kapoor: And sir, even China came up with a very big capacity of needle coke, I think 2 years earlier. So that capacity is running up in stream or that is also being underutilized, if I am not wrong there was a huge capacity that gave...

Ravi Jhunjunwala: So China, I would not say they have added huge capacities. China has always had a couple of small needle coke plants. They have added a couple of more needle coke plants.

Saket Kapoor: In the world, sir there was a new capacity that came up, in the region, I may be wrong, but it was guided by, you guys only told that there was a new capacity that came up some 2 years earlier. Where was that capacity for needle coke?

Ravi Jhunjunwala: Yes, you see, again there are 2 types of capacities, one is the real needle coke for last many, many years is basically based on oil. And so, but there is also a pitch-based needle coke which Japanese started producing about 10-12 years ago, so which has almost become today as good as the petroleum-based coke. And then there is a third type, which is the China type. And China produces petroleum-based coke with their own technology, but again the grade of coke that they produce is basically as good as the Indian coke that we have. So any western graphite producer will not be able to use that coke for the UHP kind of electrode that we produce. So what needle coke they produce in China is more or less just good enough for the lower grade electrodes which is what we produce, let say out of the Indian coke. Or maybe it could be slightly inferior or slightly better depending upon which plant we are talking about. But they really don't have the production or the capacities for what you call the real needle coke.

Saket Kapoor: Right, sir. Last point, sir you told that utilization level for this quarter is 71% to 73%, right, for the quarter one?

- Ravi Jhunjunwala:** Yes.
- Saket Kapoor:** Sir, quarter two are we expecting in this band only because the order bookings done earlier, or are we seeing any meaningful improvement?
- Ravi Jhunjunwala:** No, in terms of, as our fellow friend just asked that question, I mean obviously if we did about 71%-72% last quarter, in the whole year, we are still projecting 80%-85%. So obviously in the next 3 quarters the production is going to be much larger than 70-75 or much larger than 80-85 also in order to catch up.
- Saket Kapoor:** Yes, sir, that would come in the second quarter?
- Ravi Jhunjunwala:** It is fairly equally divided. From now onwards there is nothing like second, third, fourth quarter to be very different. I mean they are all going to be in terms of quantities more or less similar.
- Saket Kapoor:** And last point sir, we have seen some acquisition of shares from open market also.
- Ravi Jhunjunwala:** Acquisition of?
- Saket Kapoor:** Of your company shares from the promoter category, currently sir, but what kind of indications sir, are you trying to give the minority shareholders from these buyers because you are already well placed at around 60% of the entire paid up capital. So putting fresh money to use at even at these elevated levels, one may say so, so the indication from the management side is good days ahead for us. We should interpret it in that manner?
- Ravi Jhunjunwala:** I don't know how to respond to that question. I mean...
- Saket Kapoor:** No sir, it is a very simple question sir. You are putting good money to use.
- Ravi Jhunjunwala:** So whatever the promoter is allowed to do and whatever reporting has to be done that is exactly what we are doing. Now obviously, I mean if you buy or I buy or your thought process and my thought process cannot be any different.
- Moderator:** Thank you. We will take the next question from the line of Bhalchandra Shinde from Anand Rathi. Please go ahead.
- Bhalchandra Shinde:** I wanted to ask that out of our total sales, how much will be the fixed price contracts, in percentage term, if you can tell me?
- Ravi Jhunjunwala:** It will change very drastically from one quarter to another quarter. I mean it is not necessarily only because we committed for the earlier quarters more than the later quarters. I mean there is a product mix issue, you produce 3-4 different grades, your produce 7-8 different sizes. So something may have gotten produced earlier, something may have been delayed by 10 days.

So there will be a slip over from first quarter to second quarter. But largely speaking, as I said, obviously in the month of December-January-February the tradition has been that at least 50%-60%-70% or somewhere in that region, everybody commits for the next 12 months. And it is correct to guess that these commitments are more for the earlier quarters than the later quarters.

Bhalchandra Shinde: Okay, so sir as per my interaction, current spot selling is at around \$18,000 a tonne in graphite electrodes. Will it have a positive impact on renegotiation in the prices, if it stays at those levels? Means will it be easier for a player like us to take realizations in the range of around \$5,000- \$6,000 a turn at least for new contracts?

Ravi Jhunjhunwala: See, as far as the new contracts are concerned, as I said, obviously we are not 100% fully booked. And as I also said that our order booking is obviously more. By order booking, I mean the orders that we booked, let us say, in December-January-February was more for the earlier part of the year than the latter part of the year, which is obviously going to be like that. And so going forward, as I said in my commentary, we will start delivering more and more against this spot prices, against the new contracts. And these tonnages and these grades will change very drastically. You never know in which quarter we will have x% at old prices and y% at the new prices, and coming to that figure of 18,000 that you said, yes, we have also seen it on the Internet. I mean lots of these information and lot of these news are flying around, especially from the Chinese sources. But again whenever we speak about China, about any figure, any data, I mean you know that better than me, you have to take it with a pinch of salt. You really don't know which figure is right, which figure is 50% right, which figure is 40% right. When they speak about 120 million tonnes, just because we have heard 120-130 million tonnes of closures of induction furnace from 2-3 different sources, we are saying 120-130 million tonnes. But it is very possible that one real source of 120 million is the same source which everybody is picking up. So the same number get thrown around 3 times, 4 times.

Bhalchandra Shinde: Okay. So is it fair to assume that sustainable realizations in graphite electrodes can be in the range of around 4,000 to 5,000 for a longer term? Or that is also too high from the current levels?

Ravi Jhunjhunwala: Currently, yes, I mean it is easy to sell electrodes at on the spot prices, at the levels that you indicated. But obviously it is not going to be the average for the whole year, given that substantial quantities are already sold, at lower prices.

Bhalchandra Shinde: Okay. But by November-December the revision will happen in most of the contracts, right, with respect to the new prices. But if at all, say if we assume all these things are right and correct, happening in the China, do you expect these prices to sustain for a longer term or it is just a blip or just a spurt for a shorter time?

Ravi Jhunjhunwala: See, I wish I could speak to somebody who can give me that answer. I mean, we are looking for that answer for the last 2-3 months ourselves how long is it sustainable. But then you have to put so many things in the basket, when you start thinking about looking for an answer to that question that you asked, but the fact is that anywhere in the region of 120-150-170 million

tonnes of steel capacity has been shut down in China. And this is a real number, I mean, it could be 10%-15% plus, minus, but anything even this 10%-15% plus, minus margins when you are talking of 170-180 million tonnes, is a very huge number, I mean, it has a very major impact on not only China, but rest of the world. And you know as well as I do, this 160-170 million tonnes replacement is not going to be quick and it is not going to be cheap. I mean roughly speaking, I don't know maybe, at current cost, if you are talking about replacing 150-160 million tonnes of steel, it could be somewhere in the region of \$250 billion-\$300 billion. So apart from the dollars you couldn't build a Jamshedpur in one year, I mean if you are building a Jamshedpur of 10 million tonnes today, I am sure you will take, even if it is China, it will minimum be in 3-4 years, I mean, it could be 5-6 years in other part of the world.

Bhalchandra Shinde:

And sir, why you think actually, the overall scenario in graphite electrode, especially in Chinese have changed, means like I think till last year they were exporter, and few industry experts are saying that though they are right now importer, that thing will change by December. Do you agree with that point or you think that they will continue to be as an importer?

Ravi Jhunjunwala:

See there have been a lot of closures. Nobody knows what tonnages we are talking about, it could be anywhere in the regional of between 100,000 tonnes and 200,000 tonnes. And as I said, in China a very large part of their electrode is not produced at integrated plants. By integrated plants, I mean they are not producing from raw material to finished at one place under one roof. And these are these one shop processes, which are being carried out at hundreds of places. So 1 or 2 of these processes can be highly pollutant, if you have not installed the right equipment. So one or two of these processes have been largely eliminated in China. So which means that the other four processes which are intact are also useless until the time you have this chain broken in between. So how long will it take for them to or whether they can do it, that is the first question. If they have the wherewithal in terms of money to quickly take care of the environment because these one shop, one process shops are largely owned and managed by the small time industrialists in China. So whether they would have the money, where they would have the capacity to put in maybe a couple of million dollars at a very short notice, and only then they can start that chain once again. But that is only one part of the electrodes. The second main, major part is because of these very large closures of steel, China's export has declined by practically half and that number is like 50 million-60 million tonnes. And China's billets export has dropped from about 30 million tonnes to less than 10 million tonnes now. So whether it is in the form of finished steel, or in the form of billets, if 50 million-60 million tonnes of exports of steel has dropped, so obviously this is being produced somewhere. And even if you take 30%-35% of this to be produced by electric arc furnaces, in outside world, you are talking of at least 20 million-25 million tonnes of additional electric arc furnace steel which is currently being produced by some people outside of China. You see there are a couple of specific countries like Turkey, which were largely dependent on Chinese billet imports. The price at which China was able to sell billets up till Turkish plant, was much lower than what they could do using their own electric arc furnace. So suddenly all these electric arc furnaces, which were closed in Turkey, they have suddenly come back into the

business. And they all want electrodes, because obviously when you start electric arc furnace, you need electrodes.

Bhalchandra Shinde: But then, are there any difference between Chinese graphite electrodes and other graphite electrodes, because what I have heard that Chinese graphite electrodes are relatively of low grade and are consumed at relatively higher rate than normal graphite electrode, is that true?

Ravi Jhunjunwala: No, that's absolutely correct.

Bhalchandra Shinde: So won't it happen that people, let us say Chinese companies start exporting on a higher level, if they resolve that process which you are saying is polluting?

Ravi Jhunjunwala: No, that is one part I said. I mean of course they can restart if they have all the money, and all the equipments to put in quickly. But the other part that we were talking about is the 60 million tonnes of steel which has disappeared, which was coming into the Western world from China, in the form of exports. So that is creating a bigger shortage of electrodes, because this 20 million tonnes of billet which they were exporting, which has now from 30 it has come down to less than 10, you see typically billet is something which is produced in an electric arc furnace. So more or less 100% of this 20 million tonnes of drop in the billet export, is probably doing a very large portion of this is going into electric arc furnace. So if not 20 million, at least 15 million tonnes of additional steel is now being produced somewhere in the world, because they are not getting this billet. And then 60 million tonnes of finished steel export has dropped. So if you take a rough number of one-third, in the rest of the world, as the electric arc furnace share, so another 20 million-25 million tonnes of additional melting is taking place somewhere in the world, in the electric arc furnace. And you need about 2 kilos of electrode. So 20 million tonnes, because of billet, another 20 million-22 million tonnes because of 30% of 60 million tonnes of steel. So that itself is about 40 million-45 million tonnes, so close to 100,000 tonnes, in terms of electrodes. And as I said all this has happened in the background where due to a very bad market in the last 3-4 years, the electrode industry closed about 6 plants totaling about 200,000 tonnes, and that 200,000 tonnes was mismatch between the demand-supply. So today that 200,000 tonnes has gone out of business, and an additional 80,000 tonnes to 100,000 tonnes of electrode demand has suddenly come up.

Bhalchandra Shinde: Okay. So sir, one last question about needle coke. Historically or what levels you would expect needle coke prices to go? Means right now, I think it is at around \$800-\$900 per tonne. Till what levels you expect it to go and does it affect our spreads or we will take care of it while renegotiating our fixed price contract?

Ravi Jhunjunwala: See, as I said, currently everybody is facing a shortage of coke. There are only 3-4 calcination units in the world and there have been certain maintenance shutdowns that they had already decided long ago. So maybe once all of them restart after their maintenance, maybe there will be some additional coke in the market. But in terms of price it is too early to talk about it. Things are happening so quickly and so fast, we have no idea what kind of a pricing we are looking at.

- Moderator:** Thank you. We will take the next question from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Sir, two questions from my side. First, sir what if the prices of steel correct from the current levels, say by 15%-20%. So currently the Chinese rebar is trading at some \$585-\$590, January delivery. So will that impact the whole working of this electrode demand, the industry the supply coming from China, what is your sense on it?
- Ravi Jhunjunwala:** See, one thing we are very sure of is that electrode constitutes less than 2% of the steel cost. For electric arc furnace, the major cost is scrap. Second major cost is power. For a blast furnace it is iron ore and coal. So electrodes constitute less than 2%. So even if electrode prices were to go substantially higher, it will still be a very small part of the steel makers cost, given the kind of price increases of steel that we are looking at.
- Dhaval Shah:** Okay. So as per you, I mean we have historically seen the major correction in the steel price, sudden correction should not impact materially because of the given cost structure of the electrodes in the overall cost sheet for the steel makers.
- Ravi Jhunjunwala:** Yes, exactly.
- Dhaval Shah:** Okay. Fair enough. And sir, second question is that assuming FY19, our realization stands at around 5,500 and needle coke at 2,000. Can we have 24%-25% range of EBITDA margin?
- Ravi Jhunjunwala:** I mean, it will obviously depend on the spread. I mean you have assumed a certain number, I mean obviously you would have some base to take the number that you took. So obviously until let us say last year, when the electrode itself was sold at \$2,200, \$2,300, \$2,400, we didn't have obviously that kind of a spread.
- Dhaval Shah:** But wasn't this spread seen in, so I have numbers in front of me, so FY12 or calendar 2012 had the similar pricing, electrodes at 5,500, needle coke at 2,200. Am I right?
- Ravi Jhunjunwala:** Yes, you are right. At one time it was.
- Dhaval Shah:** Okay. But at that time we were at 17%-18% margin. But in the past we have gone to 20% plus margins as well. Because even in 1998-1999 there was a volatility in the electrode prices, sudden volatility which had come. So just want to get an understanding that what sort of leverage in margins, if you can give a range also, we can understand the volatility in the earnings going forward, we can see.
- Ravi Jhunjunwala:** Range in terms of what?
- Dhaval Shah:** EBITDA margin.

- Ravi Jhunjunwala:** I mean you yourself calculate it from our own annual reports. I mean, you said what, I mean the \$3,000 spread, we were at 17%-18%. So it's all a question of the spread. You are absolutely right. What the electrode price would be, what the needle coke price would be, that is all that is true, and of course the Indian power price. The second largest component is power.
- Dhaval Shah:** Correct. Okay. And so in terms of the grade of electrodes what we make, so we make everything as UHP grade or what is the share between regular UHP and HP?
- Ravi Jhunjunwala:** No. We have never done 100%. We are more or less in that two-third, one-third kind of a range.
- Dhaval Shah:** So two-third UHP?
- Ravi Jhunjunwala:** Two-third, UHP. And that is not because we like to, we don't want to produce more UHP. We can produce 100% UHP in any case.
- Dhaval Shah:** That is the market, the demand is less?
- Ravi Jhunjunwala:** There is a demand even in India and there is a market in the world for that one-third of non-UHP that we produce because all the other graphite producers vacated this market long back in favor of, let us say India 10 years ago. And then gradually we had to give up a lot of this market to China, when they came in with very low cost.
- Dhaval Shah:** Okay, understood sir. And sir, this HP grade will use pitch coke for making or it is a petroleum coke. What is it the raw material for HP grade?
- Ravi Jhunjunwala:** See, again HP, I mean we basically call two grades for ourselves, non-UHP and UHP. China has 4-5 different grades. They call HP, SHP and RP and everything. So these are basically only definition issues. But basically we talk about a UHP and a non-UHP.
- Dhaval Shah:** Okay. Sir, but on the raw material side, so needle coke I understand majority part of the UHP requires needle coke, which is sweet crude based needle coke. But on the HP side is what we can exchange our product mix if the needle coke becomes very short in supply.
- Ravi Jhunjunwala:** No, in HP we can't. We generally don't even use needle coke because of the cost issues. So we basically use the Indian coke which is again petroleum based.
- Dhaval Shah:** Petroleum based, correct. And sir, on the debt side, so what is the repayment schedule and what actually are we eyeing to repay given the increased cash flow over the next 2 years?
- Raju Rustogi:** See our repayment commitment for 17-18 is 135 crores, out of which as we stand today we have repaid about 70 crores till now. And this is the commitment part of it. And as we see the market going and based on cash flow position of the company we may look at repaying more.

Dhaval Shah: Okay. And what is your current gross debt?

Raju Rustogi: 677 crores.

Dhaval Shah: Okay. So 135 commitment is for 18?

Raju Rustogi: 17- 18, yes.

Dhaval Shah: And for 2019, how much is the commitment?

Raju Rustogi: I think 40 odd crores every year for 2 or 3 years or something.

Ravi Jhunjunwala: Our total long term debt is about 250.

Dhaval Shah: Okay. And the rest is short term.

Ravi Jhunjunwala: Yes. Rest is all working capital.

Dhaval Shah: Okay. So, incrementally so whatever cash flows you generate after meeting your maintenance expenses, and whatever small CAPEX you want to have, everything will go towards debt repayment?

Ravi Jhunjunwala: Yes, it would be. Number one, the cash flow would be used to towards income tax, towards dividend and repayment.

Dhaval Shah: Okay, So any expectation of increase in payout? Or if for debt will be the first priority?

Raju Rustogi: You are talking of repayment or you are talking of something else?

Dhaval Shah: No, what I mean is that, so the first priority of using cash flows will be to repay debt, or it will be after increasing the payout?

Ravi Jhunjunwala: Obviously it will be combination of two.

Raju Rustogi: Correct.

Moderator: Thank you. We will take the next question from the line of Aditya Solanki from the Dalal & Broacha. Please go ahead.

Aditya Solanki: Sir my question is primarily, of course you have partly answered that. But much of our bullishness is from the fact that lot of capacities have got closed in China and other parts of the world for electrodes. So what is the possibility of these facilities coming back onstream, maybe and in how much time can they come back again on-stream? I know you partly answered that, means it is very difficult to kind of guess on that. But have you seen anything on ground where

these facilities, which have been closed they are kind of going to the pollution control board and talking, like any indications?

Ravi Jhunjunwala: You see, we haven't gone to China physically. But whatever knowledge we have about China, whatever contacts that we have in this industry in China, as I said, you see a lot of these one process shops, which have also caused the real problem for the electrode industry, because that chain is broken, and these are very, very small traders, you can say or industrialists you can say. So whether they would have the appetite to even spend a \$1 million or \$2 million in a very short time, that is the question. And whether one can restart the plant after 6 months because in China, especially our knowledge is that the labor and the people move extremely fast. The movement of people from one place to another place, which is facilitated by the government, happens very fast. So that also could be an issue. Your appetite to spend that kind of money is an issue. And that is one part of the problem, but the second part of the problem is the major part of the problem is not because of the electrode capacity shutdown in China. The major part is the other thing that we spoke about, that Chinese steel export has come down by 60 million. Chinese billet export has come down by another 20 million-25 million. And a large part of this 80 million-85 million tonnes drop in the export of steel and billet, a fairly large chunk of that, at least 90% of that 20 million of billet goes through the electric arc furnace. And at least 35%, 40% of the 60 million tonnes of finished steel is also getting produced somewhere else in the world through the electric arc furnace. So the major issue is not the closure of electrode capacity. The major issue is that maybe 40 million-45 million tonnes of additional electric arc furnaces have been put into use, which were closed until now.

Aditya Solanki: Got it. So sir, it is a fair assumption that a large part of this capacity maybe will not come on stream, maybe for another 18 months to 24 months. Because of the shift in the underlying structure, means the steel capacities themselves are not going to probably come back for a foreseeable future. Is that the correct assumption?

Ravi Jhunjunwala: Yes, that is exactly what I was saying, that the bigger problem is not this electrode chain of China having broken. The bigger problem is this 60 million tonnes of steel exports, which have dropped, bigger problem is the 20 million tonnes of billet which has dropped. So 40 million tonnes to 50 million tonnes of additional electric arc furnace steel is in operation currently as we speak. And thirdly the major problem is the timing has been such that in the last 3-4 years, this industry, the electrode industry has gone through such a rough patch. That 200,000 tonnes of capacity which was working until 3-4 years ago, is no more in operation. So with that, there was already a semblance between the demand-supply currently, with the current capacity of electrodes and the current demand of electrodes. This sudden 40 million-50 million tonnes of additional steel getting produced through electric arc furnace means at least another 80,000 tonnes-90,000 tonnes of electrode. So that gap doesn't exist today. So there is no producer, which can come in and fill up this gap of 80,000 tonnes-90,000 tonnes-100,000 tonnes of additional electrode. And that is not going to be easy and that is a time consuming process, even if we wanted to increase our capacity by another 20,000 tonnes-30,000 tonnes, it's a process of at least 2-2.5 years.

- Aditya Solanki:** Okay, got it. Sir my next question is on the margin side, assuming our gross profit margins stays at 50%, sir below that, means ex the raw mat cost, what will be the breakup between variable and fixed cost? I am talking about the power cost and so the ex raw mat cost, the cost structure, what will be the breakup between fixed and variable cost?
- Raju Rustogi:** This is all available in our financials, in our annual balance sheet which we just published. I think there is nothing, there is lot of fixed percentage for breakup between variable and fixed but what we can say is, we have about 220 crores of fixed cost annually that we incur. Variable can never be projected in terms of percentages.
- Aditya Solanki:** Variable cannot be projected but this 220 is the fixed cost, correct?
- Raju Rustogi:** Is the current level of fixed cost that we incur, which comprises of employee cost, maintenance costs and the administrative and depreciation.
- Moderator:** Thank you. We take the next question from the line of Parveen Motwani from Nayan Vala Securities. Please go ahead.
- Parveen Motwani:** Sir, what is the status of exports for this quarter?
- Ravi Jhunjunwala:** See, we generally don't give exact numbers, but we are always in that region of two-third, one-third.
- Parveen Motwani:** Okay, so two-third is exports, right?
- Ravi Jhunjunwala:** Yes.
- Parveen Motwani:** Sir, given the steel production that has increased in the domestic scenario also, are we seeing any increase in order flow from this?
- Ravi Jhunjunwala:** No, our steel production is increasing, I mean our Indian steel production is increasing faster than the rest of the world. Yes, I mean there is a good demand in India.
- Parveen Motwani:** So, has it materialized in our order inflow?
- Ravi Jhunjunwala:** Yes, absolutely.
- Parveen Motwani:** Okay. Sir and one more question. Like how long will it take for the renewed prices to be seen in the results. Because as of now, I think it is all on the previous prices which we are working on, right?
- Ravi Jhunjunwala:** No, as I said, you see, we had booked substantial quantities at lower prices. But obviously we had not booked 100% of the order book. And as I also said, which is obvious that a major part of those long-term commitments were for earlier quarters rather than the latter quarters. So as

we go through the rest of the year, our proportion of old prices and new prices will keep changing. Keep changing meaning we will start selling more and more at new prices, to the extent our order book allows that.

Parveen Motwani: Okay. Sir and from the China perspective, since there is a lot of consultation happening, from there, are we getting any orders or like it is entirely supplied from China itself, whatever is their demand?

Ravi Jhunjunwala: What was your question? Can you repeat?

Parveen Motwani: From what I read there has been a shortage in China also. So are they taking it from outside?

Ravi Jhunjunwala: No, they are wanting electrodes from everywhere. I mean they are asking us to give them electrodes. I am sure they are asking everybody else.

Parveen Motwani: Okay. So they have enquired?

Ravi Jhunjunwala: Yes, absolutely.

Moderator: Thank you. We will take the next question from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

Raj Gandhi: Sir just in terms of China shut down, you mentioned 150 KT electrodes, and you also mention in the PPT that about 50% of the graphite capacity in China is shut down. So can we infer that China at 300 KT of capacity?

Ravi Jhunjunwala: Not I am sure, if I said that 50%. I said...

Raj Gandhi: It is in the PPT, the presentation says that some 50%...

Ravi Jhunjunwala: You see, again it is so difficult when we talk about China to give you any numbers. I mean what they call UHP is absolutely not UHP in some other definition. What they call. HP is not even HP in our definition, but their capacities could be very high and they produce lots of electrodes which are not used for steel making. And there are not different plants for electrodes for titanium or non-steel and steel. But all we can safely say is anywhere in the regional of 100,000 tonnes to 150,000 tonnes capacities for electrodes have been closed. Or if not 100% closed, those that chain has been broken because some of these processes have been stopped.

Raj Gandhi: Okay. And sir, any rough idea what could be the electrode capacity, steel-based electrode capacity in China, rough estimate of that number?

Ravi Jhunjunwala: You see again, I mean if you only restrict to electrodes which are used for steel making, it could be anywhere in the region of 350,000 tonnes-400,000 tonnes-450,000 tonnes. But they also do, my information is about 200,000 tonnes to 250,000 tonnes of electrodes for non-steel.

So you can, very roughly speaking it could be 400,000 tonnes also. But they have very few integrated plants. I mean in that 400,000 tonnes may be, there is no more than 200,000 tonnes or 250,000 tonnes of integrated production happening.

Raj Gandhi: Okay sir. Got it. So total steel-based, steel dedicated some 400 KT out which 200 is integrated, 200 will be just all spread out capacity.

Ravi Jhunjunwala: Yes, we have very rough numbers.

Raj Gandhi: Okay. And sir, just this needle coke, what are the alternate usages that you were mentioning, that needle coke has alternate usages also because of which prices are going up?

Ravi Jhunjunwala: See some of these producers have been -- obviously you see electrode markets were so bad in the last three, four years. And this needle coke is only required for the electrode purposes were all only required for the electrode purposes for a long time. And there was just like in electrode there was an excess capacity, so was the case in case of needle coke. So obviously, they have been looking for an alternate use if they could use in the scope for something else.

Raj Gandhi: Okay. Got it. And sir just this graphite electrodes like needle coke, you mentioned has found some application in EVs, electric vehicles. This graphite electrodes in any which,-- anyways they form a part of that EV chain?

Ravi Jhunjunwala: Form a part of...?

Raj Gandhi: That electric vehicle supply chain, the graphite electrodes in any which ways is...

Ravi Jhunjunwala: No, no. No, this is only for electric arc furnaces.

Raj Gandhi: Okay. So as in no manufacturer globally also let us say like Showa Denko or some other has a high value-added electrode used in the EV chain, so even global majors have nothing to do with...?

Ravi Jhunjunwala: No. Those electrodes are not the ones that we are talking about. Not Showa Denko, not Brookfield, not SGL.

Raj Gandhi: Okay. And sir, just one last thing, let us say now given that spot prices of electrodes are going up very high. We are hearing prices as high as \$8,000-\$9,000 also, and needle coke has been correspondingly moving up. So for this year, if I recollect, a lot of orders and all were booked this is up 3,000 levels itself. So in many cases, how are you handling the situation where in many cases now the RM prices itself will be higher than the prices that you have contracted for the electrode. So given that you have had to buy RM in the spot market?

Ravi Jhunjunwala: No, you see, just like electrodes, a large part was being sold out on an annual basis, until very recently needle coke also negotiated and taken for the whole year at a particular price. So this

year, this is happening on a half yearly clearly basis. So all the orders that we were taking, in January-February for this year, were obviously covered by the coke that we had purchased at the old price. Now the question is for some time until we know, what is going to be the needle coke price for the second half, so that is the risk we are carrying. Whatever is the spot price currently, whatever little quantity that we can still supply at the new price, that risk we are taking. We have to just take a view as to the needle coke cost. But that price is still an unknown.

Raj Gandhi: Okay. So the only risk is as you mentioned, okay. And just possible to give just a rough percentage, let us say, as you mentioned in the previous call also that, you are roughly contracted for about 60%-70% of your capacity at the start of the year, at that old prices, is that correct?

Ravi Jhunjunwala: I would rather not answer that question. I mean that is a very leading question, and obviously you know it is a very sensitive time in this industry to talk about those numbers.

Raj Gandhi: Okay. But sir just roughly then, is it possible just to get a rough idea on the quantum of risk? How much of the, as in let us say if you would have contracted whatever percentages which let us say you have done 60% or 70%, how much of that is in the second half, which is that risk of not knowing what the RM prices will be?

Ravi Jhunjunwala: I don't think there is any risk on that. I mean, whatever we have committed at the lower prices, the equivalent coke is also committed.

Raj Gandhi: Okay. So but as you mentioned, there will be some spillover in the Q3, Q4 of this contracted quantity, for which you don't have needle coke. So...?

Ravi Jhunjunwala: No, you see you have to understand the process of electrode is that the quickest electrode takes about 5-6 weeks, while the most difficult electrodes take as much as 5-6 months. So when we are speaking about a needle coke price for six months, that particular needle coke can last you from 6 months plus another 3-4 months. Let us say what gets shipped in June, at a lower price, the last electrode which gets out of the door can go out as late as October-November because that long is the process time. So it is not that if you buy the coke in June, the electrode gets out in June..

Moderator: Thank you. We will take the next question from the line of Arshad Mukadam from Vibrant Securities. Please go ahead.

Arshad Mukadam: One question on the utilization. I think one of our competitor had utilization of 95% in the recent quarter, and we are on how much, 71? So any reason, I mean, particular reason for that lower utilization for us?

Raju Rustogi: Okay, see since it is a mix of our own planning, of how do we want to execute our orders for the current year. So we started in a particular way and this a planned, this is a pre-planned way

of operating for first quarter as well as subsequent 3 quarters. So you can take it that way, that we wanted to supply equivalent of 72%-74% of orders were committed to customers in the first quarter. And we produce accordingly.

Arshad Mukadam: Okay. So effectively, what we are trying to say is that, we expect that we will get better remuneration, right, by delaying, is it correct, in terms of realization or no?

Ravi Jhunjunwala: I would again answer, this was already asked by one of our participant. We are planning according to the customer requirement. We are not speculating in terms of what can give us better margin, because we are a long-term player, we are there to stay forever. So we have planned our supplies based on how the customer requires, and when they have to be supplied.

Arshad Mukadam: Understood. Okay, thanks a lot for that. And lastly on the balance sheet front, I had just one question on the working capital. So you mentioned that you have long term debt of around 250 crores, is it correct?

Ravi Jhunjunwala: Yes, it is correct.

Arshad Mukadam: And the rest is working capital. So I believe that as the situation in the industry improves and our realization go up and at the same time our raw material price also going up. So is it fair to assume that the amount of working capital which we will require will also significantly increase, right?

Ravi Jhunjunwala: Yes, what you are saying is, right, when the level of operation goes up, the level of working capital goes up. But when the industry improves you have possibility of collecting your money early as well. So we want to balance the increase in operational level, with faster collections of money and try and maintain the rupees growth level of working capital at the end of the year.

Arshad Mukadam: Okay, I understood that, because I was looking at this past data and what we saw was that, just before the upturn in the industry, the level of working capital increases significantly which actually blocks capital instead of raising it. So there is a delay in actual raising of cash flow from the business, when the situation improves. So I were just wondering whether for the initial few quarters, actually more capital will be required or blocked in the working capital?

Ravi Jhunjunwala: So, to answer you friend, no situation is same. I would say this development post February 17 is one of its kind. Now if there is acute requirement or the demand has gone up, suddenly over last week or month, we definitely see a possibility of customers rotating their money faster. So if they get their money fast, they are willing to pay fast as well. So it is a matter of when the demand increases, it is increasing in the entire value chain. It is not only for electrodes but for steel as well. So if they get money faster, they would be willing to pay faster, and that is the basis I am saying, in this particular year we see a possibility of collecting our money faster.

Moderator: Thank you. We will take the next question from the line of the Abhisar Jain from Centrum Broking. Please go ahead.

- Abhisar Jain:** Sir, my question is related to needle coke. So sir you had mentioned that in the petroleum-based needle coke, there is limited supply, and some of it is in right now having some maintenance shutdown. Sir could you be able to indicate what is this overall needle coke capacity on absolute business is?
- Raju Rustogi:** The capacity for, if we put petroleum based and the pitch coke based together would be roughly 800,000 tonnes worldwide.
- Abhisar Jain:** This is for the UHP grade electrode, right?
- Ravi Jhunjunwala:** Yes, that's right.
- Abhisar Jain:** Okay. And sir is there any early ballpark indication that how much of this is finding its alternate usage already in the lithium-ion battery?
- Ravi Jhunjunwala:** See some of this, I mean 1 or 2 major suppliers have been working closely with Chinese battery manufacturers, so as to what is the right feedstock for making batteries. So they started with natural graphite, then coming to synthetic graphite, and plans are going on with needle coke. So right now the quantity is not much, but it is projected to increase in the next 1-2-3 years gradually. So yes, I really cannot comment. I don't have any authentic data as nobody would share as to how much each supplier is selling to lithium battery makers, but it seems it will go up.
- Abhisar Jain:** Right. So, sir, now the question that I have is, sir that as the EAF production outlook looks to be promising over the next 5 years, particularly now with Chinese exports having tapered down and maybe tapered down for good. So all that EAF capacity would largely be requiring electrodes, either UHP or non-UHP. And if the needle coke capacity also is finding its alternate usage, then where does the electrode industry head from here? Is there a chance that the needle coke capacity itself can go up and make up for this increased demand of electrode or will the electrode industry shift to more of non-UHP?
- Ravi Jhunjunwala:** No, we can't move to non-UHP, because there has to be a demand for that many tonnes of non-UHP. The major demand in the world is UHP. Non-UHP is a very small portion of the total world demand, in countries like India and China. So we will have to produce UHP only. That is where the demand is. But again, obviously, I mean, this is a normal cycle which will happen in any industry in any time. And, ultimately the water will find its base. So if there is enough money, if there is enough demand, that you can always increase capacity, just like you can increase capacity for electrodes, it is the same thing, the same thing applies for needle coke producers. He can always expand the capacity if there is a market.
- Abhisar Jain:** Right. But sir, I think in needle coke, there is a little bit of a complication, because of the decant oil which comes out of certain crude processing and availability of the same, and needle coke being more concentrated with only a few producer for that reason. So are you confident

sir, or are you seeing an early indication that needle coke guys are ready for doing the capacity expansion as may be required?

Ravi Jhunjunwala: No, you see, to see your first question, yes it is in the hands of only 4-5 people. The major issue is not the availability of decant oil but the technology is the main issue, just like in the electrode business there are only 6-7 of us, and there has been no new entrants in this business for last 30, 40 years, exactly the same thing in needle coke. They are only 4-5 and they have remained 4-5. I am not sure whether anybody has ever suffered because of availability of decant oil.

Ravi Jhunjunwala: The issue is more of technology. And the day there is enough demand for electrodes, I am sure electrode industry will do something to increase capacity. It is only a matter of some time and money. And I guess the same thing applies to the needle coke producers.

Abhisar Jain: Okay. So effectively sir, there could be investments into the needle coke capacity expansions by these 4-5 players to address the market for both electrode as well as for, maybe the lithium-ion which is coming up as a new segment.

Ravi Jhunjunwala: Exactly.

Abhisar Jain: Okay. And sir, as such then we don't foresee that there will be much demand increase for the non-UHP electrodes which then we can address rather easily considering that the pitch-based coke is available more freely, right?

Ravi Jhunjunwala: I don't think we should confuse the pitch coke issue. Pitch coke is not something, which is necessarily used to only for non-UHP. Pitch coke can also be used for certain grade, certain quality, certain sizes of UHP. So it is also a replacement for petroleum-based coke to that extent. So it has nothing to do with UHP and non-UHP.

Abhisar Jain: Okay. And sir the other question was that for FY19, generally we used to open our books for contracting by say December-January and then close it by, to a certain extent to the 60%-70% extent by February-March. Sir, so given the situation in the industry and what we have been picking up from the industry related sources, is that EAF guys are ready to ask for contracting of the quantities for 2019. So are you sir, starting to do that process, and if yes, then how is the needle coke volatility being factored in for that?

Ravi Jhunjunwala: No, it is a very valid question and which we are facing on a day to day basis. And it is a very difficult situation. That's exactly what we've been saying that given the situation which has developed in the last 3-4 months, lot of these large customers have already started approaching us and asking us for prices and volumes and commitments for 2018 calendar year. And as I said up till very recently, we were able to freeze the needle coke quantity and the price for 12 months. And now this trend has been changed to 6 months. So it is extremely difficult for us in this volatile market to commit a price of electrodes for next year, unless we know the cost of

needle coke simultaneously. And given that the process cycle itself is anywhere between 6 weeks to 4-5 months, that add to a larger risk.

Abhisar Jain: True sir, but what I was kind of coming to understand was that there were some opportunity to kind of lock-in in some contracts at say, a certain level of spread and with a pass through of any further volatility in needle coke above that. So you are not sure what needle coke contract would be for H2 and what will be the contract for FY19, but the customer might be ready to take that on board.

Ravi Jhunjunwala: Yes, I mean these kinds of discussions, these kinds of new thoughts are coming into our minds and customer's mind. But it is too premature at this stage and we don't even know what the coke price would be, let us say for the October-November shipment. And now we are talking about the whole of 2018, which is 16-17 months away.

Abhisar Jain: Right. So we have not started contracting for that period at all, right, at this point?

Ravi Jhunjunwala: I mean yes, we have been talking. A lot of customers are asking us, but we are giving them exactly the same answer as we just gave and there are some indications on the Internet. If you go on the Internet of some of the international graphite suppliers, they have come out with certain numbers for 2018. But again, these are not committed numbers. They are just basically saying that probably this is the indicated price. This is what we think could be the electrode price next year.

Abhisar Jain: And sir, sorry, just to come back to the needle coke, that the maintenance shutdown related shortage is a temporary one, right, and that should normalize in the next few months?

Ravi Jhunjunwala: Yes, I am sure.

Abhisar Jain: So as such the needle coke related scarcity for the industry is not expected for the next fiscal, or there could be some bit of that risk, which you know which could force us to operate at less than 80% even if we want to operate at 90%.

Ravi Jhunjunwala: I can't talk about the future but currently I believe everybody is facing a problem. Everybody has a problem with availability of coke. And how much of production is going to increase, how much needle coke production is going to increase, how much is this demand going to be catered for the lithium-ion batteries, lots of ifs and buts there.

Abhisar Jain: Sure sir, lots of unknowns there. Sir and just lastly, can you give the CAPEX guidance for FY18 and FY19? What would be the CAPEX or any other plans for doing any CAPEX or diversification anything?

Ravi Jhunjunwala: No, for the time being we have not planned for any major CAPEX, but given that there is sufficient demand of electrodes, we had let us say, I should not be using the word neglected, but obviously we were constrained to do a lot of things in the last 2-3 years which we should

not have done. So given that we need to produce the last tonne of electrodes that we can, that extent whatever CAPEX is required, we are doing.

Abhisar Jain: What would be that number?

Ravi Jhunjunwala: That's not going to be much.

Abhisar Jain: What would be that number, sir, ballpark range?

Raju Rustogi: For 17-18 it would about 30 crores.

Abhisar Jain: Okay, sure sir. Thank you so much, sir. And best of luck. I really hope and wish that these kinds of days for the electrode industry are here to stay for the next 4-5 years.

Ravi Jhunjunwala: I hope so.

Moderator: Thank you. We will take the next question from the line of Subrata Sarkar from Dalmia Securities. Please go ahead.

Subrata Sarkar: Yes, Sir, two questions. One is that like we have in terms of power, sir, like previously we were planning around 71% to 72% of our capacity. Now we are projecting around 80% to 85% of capacity. So in that case, what will be the effect on power, like are we self-sufficient on power or power cost is expected to go up? This is question one. And second is, like as we had plans for 71%-72% kind of capacity and now we are planning 80-85, so all these new incremental addition will come at new cost, new price rather?

Raju Rustogi: So your first question was about power. So we are self-sufficient in power up to even 100,000 metric tonnes of capacity. So in terms of power we have captive power plants and we are self-sufficient even up to whatever level of capacity that we go up to, in this year and even possibly next year. The second question was about, could you repeat your question, because you were bleak in the end, in terms of...?

Subrata Sarkar: Yes, sir, my question is like previously we have planned for 70% to 71% of capacity. Now we have planned for 80%-85% capacity. So like all these incremental 10% to 15% capacity we have planned now capacity addition or supply. These are all will come at a new price or we need to get into counter affect older price also?

Raju Rustogi: So, this is we are talking of 80% to 85% capacity will be at same price that we are producing today.

Subrata Sarkar: No. My point is sir, when we get entered into contract at around say Jan to feb. At that time we had planned at 70% to 71% only. So now like all these incremental capacity addition will come at a new price, in that case sir, in this changed scenario? That was my question.

- Raju Rustogi:** See, I think as our Chairman clarified, we had some capacities which were booked at older prices. Now this capacity does not mean whatever we contract is meant for only first quarter if it is 25% capacity. So if it is 25% capacity order booking, it is to be supplied throughout the year of this 25%, right? So what we are saying is even if we increase this capacity utilization from the plan of 70 to now of 85, the percentage of spot prices will be higher vis-à-vis what we thought at the beginning of the year.
- Subrata Sarkar:** Okay. So it will be at a higher price. So that's what. What we thought of at the beginning it will be at a higher price sir. That's what I'm trying to know.
- Raju Rustogi:** Yes.
- Moderator:** Thank you. We will take the next question from Pankaj Gupta, Individual Investor. Please go ahead.
- Pankaj Gupta:** Just I need to understand, sir generally we contract with the buyer the graphite electrodes for a year and then we get into the needle coke suppliers, correct?
- Ravi Jhunjunwala:** Yes, you are more or less correct, Yes.
- Pankaj Gupta:** Yes. So sir in this case, since we have negotiated or entered into a contract for one year, but the needle coke suppliers have now restricted the contract for 6 months. So do we see from the next year onwards there would be a change in the contractual terms where we would be hesitant in getting into a yearly contract or we will be more cautious, first enter into a needle coke and then electrode?
- Ravi Jhunjunwala:** You are absolutely right. I mean that is a logical thing to do. And that is what I think everybody trying to tell the customer when he is already asking for the entire 2018 contract to be fixed now. We are just not in a position, we have no idea about our own cost.
- Pankaj Gupta:** So sir, if we see in the last 3-4 years that the tide have turned earlier against us in terms of falling needle coke and electrode prices. So, has our customers came and renegotiated downwards or they were happy to take at the contracted prices which were maybe more than the spot prices. Sir, I'm asking this is that, is there any scope of renegotiation of prices with our buyers, because the needle coke prices have gone up and there have not been recontracts? So it was like a force majeure for us.
- Ravi Jhunjunwala:** I'll ask our marketing head who is sitting here to answer that.
- Manish Gulati:** It is rather a difficult job to get the contracts renegotiated. I mean once a contract is entered normally neither the customer nor the supplier actually makes a request as far as it is controllable, and everybody factors to some extent. But, yes this year events have been unprecedented. I mean, the big ones, certainly they resist. I mean generally I don't think we will be able to get any contracts renegotiated. We just have to live with those till we complete

those supplies and just bank upon the new damages, unbooked damages at higher prices. But contracts, certainly have to be respected. And it sometimes goes other way round. We had some contracts 2 years back when the prices fell. The customers did honor those contracts, barring 1 or 2 or 3 mostly Indian ones, which wanted them to be renegotiated. But internationally they respected the contracts. And since our two-third of our sales is in exports, we really now can't go back to them and say there is a problem and we want renegotiation.

Pankaj Gupta: So, this time can we expect that the contract period, generally it happens by December, January, it will be delayed this time.

Ravi Jhunjunwala: See, we will be very careful I would say. We will be careful this time before making long-term commitments. We will commit only as much as we have a back-to-back commitment on coke prices. For the rest we just have to leave it open. I think as an industry we have learned the hard way, because everybody has a different buying cycle. America, then Europe, they want to buy for calendar year. Middle East comes any time after February or March. So there are different buying cycles, depending up on which country the steel plants are in. And then coke it was earlier than calendar year. This year it was done April to March. And then there was a one year of fixed price which they made in 6 months. So lot of things get mixed together. But, yes, we have understood that, for future, for FY19 we will commit only as much as we have visibility on coke prices.

Pankaj Gupta: Sir. my last question is on our capacity utilizations. Sir, practically how much can we achieve in terms of capacity utilization in terms of rated because there are different grades of electrodes we get into. So is it that we can achieve up to 100% of capacity utilizations or 95% is the maximum which we can practically achieve?

Ravi Jhunjunwala: See the capacity depends a lot on product mix. So it is like a rated capacity and then there is a practical capacity. But I think in this kind of a market 85%, 95%, 90% is a good number.

Pankaj Gupta: Good number, the maximum which we can achieve?

Ravi Jhunjunwala: Yes. 90, I would say. Because earlier as I said, if we make only let us say two sizes, let us say three sizes, and one grade, of course, the rated capacity is that is what it is. But if you make a lot of grades, lot of sizes, lot of variety then of course it puts down the total production possible out of the same capacity.

Pankaj Gupta: And sir, do we have any maintenance shutdown for our plant, and typically when it happens?

Raju Rustogi: We do not have something called as long-term maintenance shutdown, which is at a cycle of one year or two years. We have actually capacities, which are alternate. So if we have a shutdown in one of the furnaces, we are able to run the other furnaces and still meet the requirement of the customers.

- Pankaj Gupta:** Okay, and sir lastly, sir can you just tell us about the status of the SDK and SGL merger, is it true or any idea which you can give us?
- Ravi Jhunjunwala:** The SDK-SGL merger is going on. You can have a look at the SGL website. There are some news posted yesterday and today, and they say that it would get completed by let us say, year end. That is the information readily available for you. You just have to go to their website.
- Moderator:** Thank you. We will take the next question from the line of Rajeev Desai from Indiabulls Mutual Fund. Please go ahead.
- Rajeev Desai:** Sir regarding this, once again just coming up with the incremental capacity, revised spot prices, just wanted to have understanding, like you said 5 weeks you will require for a minimum electrode to supply, and almost 6 months times your cokes supplies basically takes place in a transition. So have we basically done a deal for the next incremental capacity for coke, and as well as for the new incremental supply, 85% that incremental 15% from 71% to 14%? I mean the contract has been fixed, sir?
- Ravi Jhunjunwala:** No, that is what we said, the contract has been fixed for the first 6 months.
- Rajeev Desai:** Yes, but for the incremental since you have already planned and since already the process times required, does it indicate that we have some capacity fixed at a revised price?
- Ravi Jhunjunwala:** Yes, I mean, if you're asking that for the next 6 months, if we have tied up with coke for 80%-85%, if that is the question, then...
- Rajeev Desai:** The coke as well as the basically the graphite electrode.
- Ravi Jhunjunwala:** Yes, so the answer, if you want a yes and no answer, then it will be a no, but by talking to the 3-4 vendors of coke that we have, we know where they are, we know where we are, we know what their situation is, and we believe that we should be able to get to this extent of 80%-85%, capacity that we are talking about. We don't know the price but we believe that we will not have a shortage of coke to go that level of 85%.
- Rajeev Desai:** And with respect to graphite electrodes?
- Ravi Jhunjunwala:** Graphite electrode meaning?
- Rajeev Desai:** Yes, supply basically if it is increasing the production. So have we increased, signed a deal for that, or just spot price? But anywhere they are lower priced, not as exactly spot price which is 9,000?
- Ravi Jhunjunwala:** You are talking of electrode or coke?
- Rajeev Desai:** Yes, electrodes.

- Ravi Jhunjunwala:** No. We haven't signed everything, obviously. I mean that is what we have been saying that a large portion of the annual order book is fixed by January-February but there is a part which is still open.
- Moderator:** Thank you. We'll take the next question from the line of Sanjay Sathpathy from Ampersand Capital. Please go ahead.
- Sanjay Sathpathy:** Yes, sir just want to confirm, one thing which you just mentioned during the call that it takes some 5 to 6 months to produce high quality electrode, is that correct?
- Ravi Jhunjunwala:** No, I didn't say that. I said the quickest electrodes take about to 5 to 6 weeks, the longest can take as much 5 to 6 months.
- Sanjay Sathpathy:** Okay and what is the average?
- Ravi Jhunjunwala:** There is no average. I mean it really depends on the way of the grade, and the quality, and everything that we are talking about. Average you can take about 2-2.5 months.
- Sanjay Sathpathy:** Okay. And sir, you mentioned that you can have 80%-85% capacity utilization this year. Can go up to higher level, and are you planning for a higher level for next year?
- Ravi Jhunjunwala:** Of course, we would like to go to 100%, but today we don't know how long this market is going to continue the way they are, and secondly whether there is enough coke in the market to able to run at 100%.
- Sanjay Sathpathy:** Okay. And as far as this 80%-85% is concerned, you have necessary amount of stocks, of raw material?
- Ravi Jhunjunwala:** I just answered that question to our previous friend. I mean we don't have a signed contract, but by experience we know that we should be able to manage that.
- Sanjay Sathpathy:** Okay. You were essentially saying that this year is not a problem?
- Ravi Jhunjunwala:** Yes, you can say that.
- Sanjay Sathpathy:** Okay. And last question, sir, you said that there will be some open contract and you will be able to sell at a higher price? So when do you think that benefit will come in, like quarter three, quarter four, or quarter two onwards itself?
- Ravi Jhunjunwala:** No, it will start showing up from now onwards. I mean, of course, it will be very hugely back ended, but the improvement will start showing from this quarter onwards. Disproportionately, but it will start showing up.

- Sanjay Sathpathy:** Understood. And sir, if I can just ask one more question, that basically the 71% and whatever, your needle coke cost is it going to change dramatically during the course of this year?
- Ravi Jhunjunwala:** Yes, I guess so it will change. I mean if electrode prices are also changing, I am sure needle coke will also change.
- Moderator:** Thank you. We have the next question from the line of Devang Sanghvi from ICICI Direct. Please go ahead.
- Devang Sanghvi:** Just one question was there. We said additional steel produced for the year was around 50 million to 60 million tonnes for the current year, and most of the Chinese capacity shutdowns would happen back ended. So do we expect this number to go 100 million tonnes over next 2-3 years?
- Ravi Jhunjunwala:** No, you see, there is no number on this electric arc furnace. This is just what you call the back of the envelope kind of, common sense kind of a conclusion that we are drawing. I mean we are basically drawing this conclusion from the fact that China's export is coming down from 120 million tonnes to something like 55 million-60 million tonnes. And so, I am assuming that this 60 million tonnes is going to the rest of the world, where they were not able to produce to the extent of 60 million tonnes, because of the exports, because of the dumping that China was doing. Now I'm taking a reasonable number of about 35%-40% of that...
- Devang Sanghvi:** So my broader question was can we again go to 32% of steel produced through the year which is currently at 26% of the steel produced? Can that be a possibility?
- Ravi Jhunjunwala:** I mean that is what everybody was expecting. Five years ago, if you had spoken to anybody in the steel industry, any consultant in the steel industry, he was talking about the electric arc furnace and the percentages were 31%, 32%. And from 31%-32%, they were all talking about going up to 37%-38%-40%. And in that backdrop only we decided to expand. And unfortunately these events which happened in the last 5 years, they have brought this number back to 25%-26%. So hopefully this 50 million-60 million tonnes if our theory and our calculations are correct, then obviously this 40 million tonnes or 30 million tonnes, or whatever that number of additional electric arc furnace steel is going to be produced, it will at least add it up to at least 30%-31%. So it will at least go back to where we were 5 years ago.
- Devang Sanghvi:** Right and there will be no new capacity during next 2-3 years globally, which will be coming up. So we are the only players who will be catering to this additional demand, if I am right?
- Ravi Jhunjunwala:** You're talking of the electrode industry, now?
- Devang Sanghvi:** Yes, I'm talking about the electrode industry.
- Ravi Jhunjunwala:** In electrode industry, you know there have been these 6-7 players for a very long time.

- Devang Sanghvi:** Yes sir, for last 4-5 years now.
- Ravi Jhunjunwala:** Yes, so unless somebody existing decides to take the plunge and make a big expansion, we don't see anybody, any new player coming in soon.
- Devang Sanghvi:** Sir brownfield expansion will also take more than 3 years, 2 years depending on the technology what we require and the setup cost and everything, if that is a good understanding?
- Ravi Jhunjunwala:** Yes, Greenfield will take much more than three years. You can't put up this plant in 3 years.
- Moderator:** Thank you. We will take the next question from Payal Goenka from Ratnabali Capital Markets. Please go ahead.
- Payal Goenka:** Sir I just want to know as in, as per the industry structure we book the order for the entire year, by the month of December-January, what you mentioned?
- Ravi Jhunjunwala:** Yes.
- Payal Goenka:** Now as in, suppose the spot prices at that time is around 5,000. So is it safe to assume the contract for the next year will be around for that price?
- Ravi Jhunjunwala:** What was the last sentence you said?
- Payal Goenka:** As in, I am just telling, suppose the spot prices at that time, at the time of December-January, when we booked the contract, so if the prices are at like, suppose 5,000 level, so can we expect, assume that for the next year the contract will be for that prices, the spot price at that time?
- Ravi Jhunjunwala:** No, we are talking of \$5,000, let us say for the current year contract price, that is the assumption. You are talking of this year or next year?
- Payal Goenka:** Next year, 2019.
- Ravi Jhunjunwala:** Next year, it is obviously too early. How can we, we have no idea how long this whole thing is going to last, what is going to be the price of needle coke. We can only talk about what is happening currently in the market. We can only tell you what is the status of the steel industry, what has happened in China, what is the status of the graphite industry. But guessing a number for next year will not be reasonable at this time.
- Payal Goenka:** Okay, sir. Sir, I just want to mean, as in, the spot price at that time whatever level it is, that will be the price for the next year contracts. As in December-January prices, the spot prices at that time.
- Ravi Jhunjunwala:** Correct.

- Payal Goenka:** Okay. Sir, one more thing, so as in we know that the export is around two-third of the total sales, sir can you just tell what are the major reasons, where do we export?
- Ravi Jhunjunwala:** We are quite equally spread, I mean in Middle East, Europe, America, and Southeast Asia. But we export to almost 35 countries and these are the markets let us say after India, that's Middle East and then Americas and then Europe and Southeast Asia. So we are quite evenly spread. We are not exporting to and dependent on 2, 3, or 4 countries that way.
- Payal Goenka:** Okay, sir. And sir, so like on the part of imports from where do we, as in, import the needle coke. As in, I just want to know how do we do the currency hedging. Our exports are in different region and the imports are centered to which region?
- Ravi Jhunjunwala:** See, Everything is basically, majority of our export and imports are all happening in dollars. So whether we are importing our coke from US or from Japan or from Europe, these contracts are done in dollars.
- Moderator:** Thank you. We will take the last question from the line of Suyash Kapoor from Kapoor & Company. Please go ahead.
- Suyash Kapoor:** I have got the answer of all the questions, I have a request that if you put a synopsis of your conference call on your website it will be very helpful for the investors and it will increase our knowledge because you have discussed a lot about many things such as variety of needle coke, we discussed about demand supply, so like frequently asked questions which analysts have asked so I have suggestion that if you put a corporate video on your website it will be very helpful for us. If you can give your thoughts about the same.
- Ravi Jhunjunwala:** Your suggestion is good but it would be better that if you require more than this or you want more clarification then you can call us. He is saying it uploaded on the site in any case on our website.
- Suyash Kapoor:** Sir what I meant is frequently asked questions are there because this is such a volatile industry as far as my understanding and correct me if I am wrong as you wanted to tell in Graphite in AGM I am shareholder of that also Mr. Bangar was also telling the same and comment anything what will happen in one year it is almost impossible, what factor has happened in China your industry is at inflection point where a rapid growth can come or if something goes wrong or circumstances change like we went in 7-years exile again we will go to the same thing again. So please share your thoughts on that sir.
- Ravi Jhunjunwala:** What can I say that is the problem.
- Suyash Kapoor:** That is what I am saying that if you tell shareholders that we are at such time that there can be a lot of growth or there could be problem of demand. So for those participants who are not participating today I request if you can put a corporate presentation for them.

- Ravi Jhunjunwala:** We have to think about it. These things informing publicly or talking about it publicly as every industry is a competitive industry, you know that so those angles are there. And quarterly investor presentation which are there and the balance sheets in that future outlook is there according to me if you see any company's website if you will and as far as I can understand what you want to say if you give daily update that today we are here I think we will have to check. I don't think in other's website that it is today's update. So it is like that quarterly you get a good update, we have such con-calls, a lot of data you can have. Any shareholder can understand and on our website, you can get all these data. I think quarterly is the best. Daily update is very difficult.
- Suyash Kapoor:** And sir my last question is and previous con-call someone asked that your promoters have done buyback the shares so I have a suggestion if you would have done QIP then the money would have come directly to the company, it would have benefitted us a lot. Kindly give your view on the same.
- Ravi Jhunjunwala:** QIP does not happen Rs. 5 crore or Rs. 10 crores, it happens of big way. And we should have that much of requirement. If today things are looking better for the last three to four quarters that profitability will be good, market is good. As someone asked a question that the loan of Rs. 225 crores that premature repayment also we are expecting that we would be able to do. By doing QIP you are bringing more money to the company but there should be some use of that money no?
- Suyash Kapoor:** Do the debt repayment.
- Ravi Jhunjunwala:** That's what I am saying debt of Rs. 200 crore to Rs. 250 crores long-term that will be paid by anyways the way we are going right now the cash flow will allow us to prepay the loan.
- Suyash Kapoor:** Is there any plan of diversification seeing the volatility industry environment, as you are saying that how long these golden days last we don't know. Everyone is getting jittery about doing any huge expansion as Mr. Bangar also does not want to do any big expansion, no one know on which side the wind will blow so are you thinking of any diversification? Please give your view on the same.
- Ravi Jhunjunwala:** The matter of diversification is going on in every industry and every company. So as a group we are in power, graphite, textile so in power we were very aggressively active for the last three to four years, that time we were thinking of one project, two projects we were thinking of putting in HUG and will not put in our another private limited company and we will do in HUG. Now that for the different reasons everyone knows what is the condition of that. Now on that line similar to this the diversification we are working on that and some work has been done, some progress is also there.
- Suyash Kapoor:** Are you interested in solar sector? Are you planning to invest in solar sector?
- Ravi Jhunjunwala:** We have a 5-10 megawatt in another company, not very big.

- Suyash Kapoor:** Your main component is power cost as a raw material in your expenses,
- Ravi Jhunjunwala:** Power is 100% captive. It is not hydro, it is different company but whatever power in our company is there that is in thermal something around 70% to 80% that is captive and 10% to 15% is our own hydro in this company only. In this company whatever power requirement is there that is captive. We don't need to put for captive use.
- Suyash Kapoor:** Bhilwara Power is it your subsidiary?
- Ravi Jhunjunwala:** Bhilwara Power is not publicly listed company but in that three four private equity people are there with us.
- Suyash Kapoor:** Is there any plan for IPO?
- Ravi Jhunjunwala:** No IPO is going to come in power because there is no growth around 300 MW capacity is going on absolutely fine and there is no problem in that. And at least three to four projects were there in pipeline but in that if they would have grown then we would have done IPO in that one project was of about Rs. 1000-1500 crore but now whole sector is in difficulty.
- Suyash Kapoor:** What is the percentage you are holding in Bhilwara Energy?
- Ravi Jhunjunwala:** It is around 27% to 28%.
- Suyash Kapoor:** Then it is not the majority shareholding.
- Ravi Jhunjunwala:** It is not the subsidiary, it is our associate.
- Moderator:** Thank you very much. That was the last question in queue. I now hand the conference over to Mr. Ravi Jhunjunwala for his closing comments.
- Ravi Jhunjunwala:** Thank you friends. I think this has been our longest conference call and I thank you for so much of interest that you have shown. And I look forward to speaking to you once again in a much better atmosphere, with maybe much better results in 3 months' time. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of HEG Limited, that concludes this conference call for today. Thank you for joining us. And you may now disconnect your lines.