



Q2 FY14 Investor Update Presentation

HEG Limited - Profile

- HEG Limited (henceforth HEG) is a leading graphite electrode manufacturer & exporter
- HEG produces two grades of graphite electrodes - High Power & Ultra High Power - used in manufacturing steel through the Electric Arc Furnace (EAF) route
- Exports over 75% of its production to more than 25 countries of the world
- Diversified customer portfolio - ArcelorMittal, Nucor, POSCO, Emirate Steel Ind, Dongkuk Steel, Severstal, SAIL, Tata Steel, Jindal Group etc.
- 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 77 mw (thermal power - 64 mw & hydro power - 13.5 mw)

Global Steel Industry

- Major steelmaking overcapacity of more than 300 million tons (mt) at the global level
 - Average utilization rate of less than 80%
 - Steel prices are down by 10% in the year to mid-2013 squeezing the margins of manufacturers
- Global steel production for the first nine months of 2013 higher by 2.7% y-o-y at 1,186 mt
 - However, excluding China, the year to date production is down by 2%
- Global steel production for 2013 is estimated to be 1,590 mt - compared to 1,547 mt in 2012
- Despite challenging economic conditions, global steel demand to grow in 2014
 - US is expected to resolve its fiscal constraints while improvement in EU economies is likely to continue
 - Steel demand from developed economies is expected to return to positive growth in 2014
 - Chinese demand is expected to grow slowly. Demand in rest of the emerging economies remains uncertain due to unresolved structural issues, political instability and volatile financial markets

Graphite Electrodes Market & EAF

- Graphite electrodes find their biggest industrial use in Electric Arc Furnace (EAF) used in steel plants to melt steel scrap
- Graphite electrodes market has a current market size of over 1.1 million tonnes per year (US\$ 3.5 billion); with the steel industry being the largest consumer
- The demand for graphite electrodes is therefore sensitive to steel production via EAF
- Efficiency, feedstock flexibility and environmental advantages make EAFs a much more attractive investment for future capacities
- Share of EAF in the global steel production is currently 31%
- EAF's share of crude steel making likely to grow exponentially and is estimated to overtake BOF steelmaking routes by 2030

Factors leading to rise of EAF capacities

■ Environmental

- EAF route generates significantly less carbon emissions than BOF route (both in actual production process & also because EAF predominantly utilize and recycle ferrous scrap)
- As more carbon emission taxes and restrictions are being enforced by governments across the globe, EAF will only grow in importance

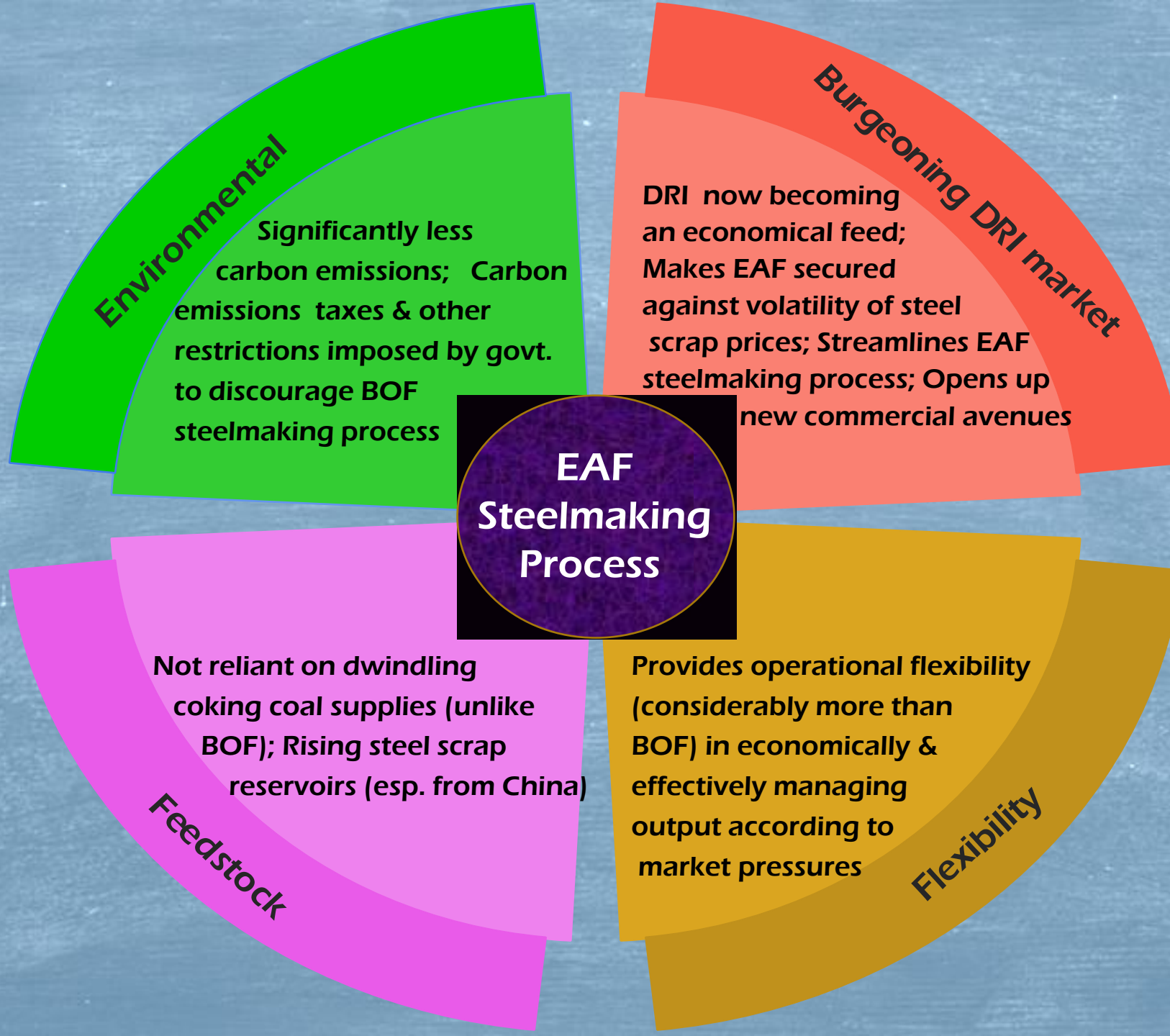
■ Flexibility

- EAFs can economically and efficiently reduce their output and capacity according to market pressures
- Volatility of raw material prices and slackening of global steel demand makes the flexibility of EAFs even more important.

■ Feedstock

- The traditional BF and BOF route are reliant on coking coal supplies which are beginning to tighten
- EAFs do not have any coal requirements and are therefore unaffected from the dwindling coking coal availability

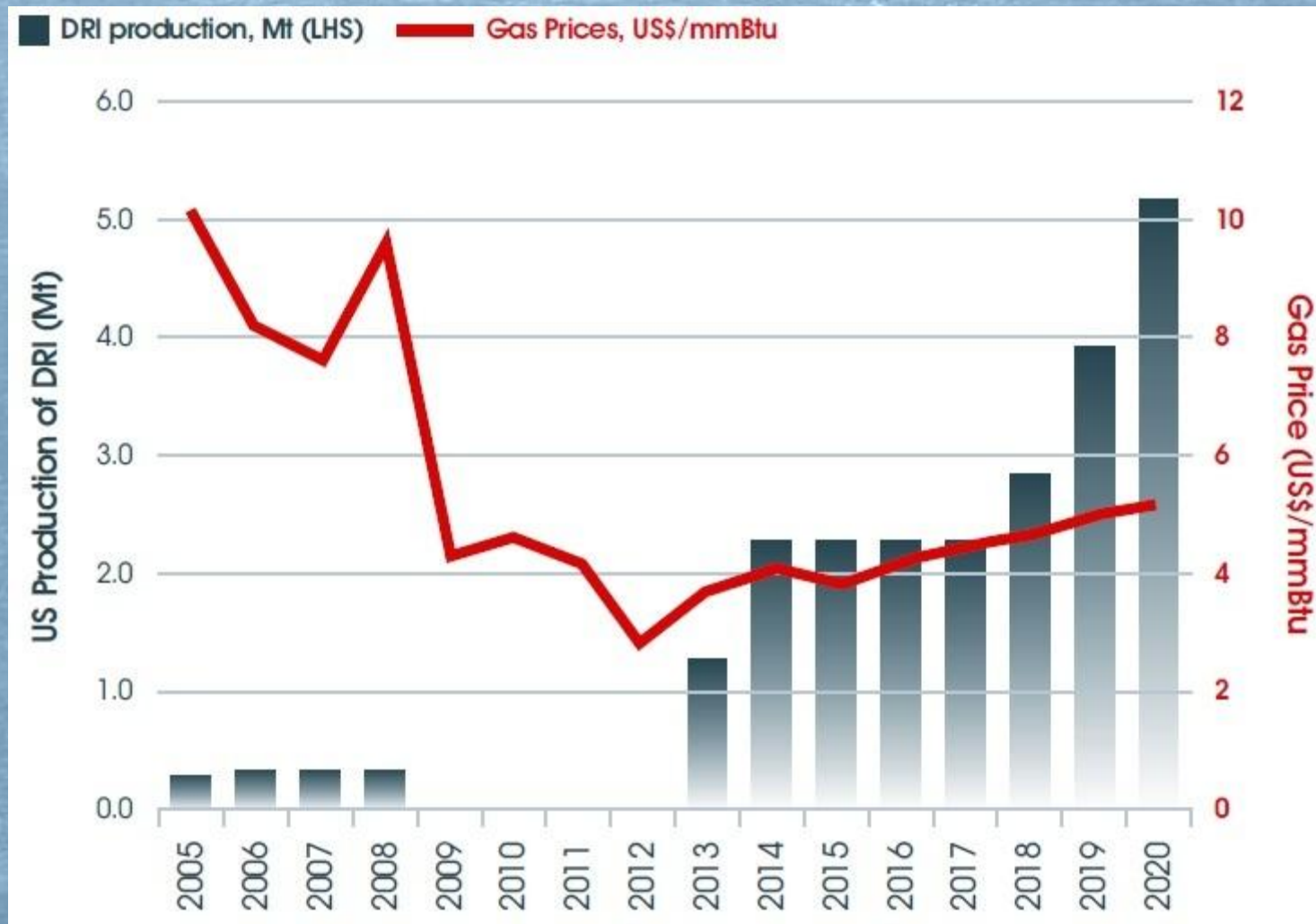
Changing Dynamics of EAF Steelmaking



Economics turning favourable for EAF

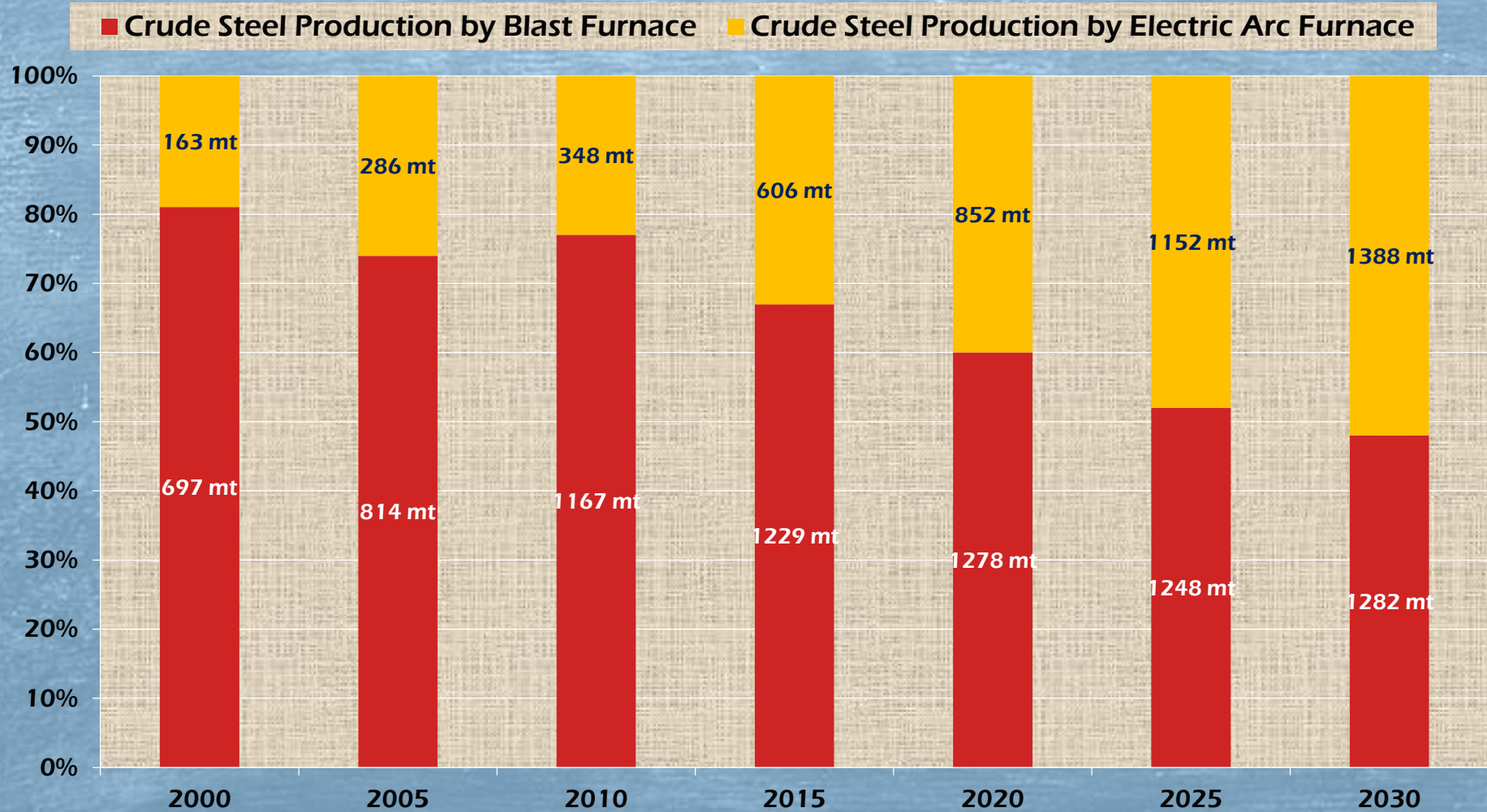
- In production of steel through EAF route – scrap steel is primarily used as feedstock. However Direct reduced iron (DRI), if available economically, can be used as furnace feed
- The shale gas revolution & the resultant affordable natural gas has revived DRI production & capacity additions
- DRI to streamline the EAF steel making process in terms of efficiency, cost & finished product markets
 - EAF steel makers to tap into the iron ore market & protect against the volatility of the steel scrap market
 - Prove to be one of the most influential shifts in the steel industry for decades
 - Have ramifications across the entire supply chain
- DRI based EAF steel production is likely to remain an attractive, cost effective option

Shale Gas & DRI Production



Source: MetalsBulletin Research

EAF steelmaking route to overtake BOF by 2030



Source: MetalsBulletin Research

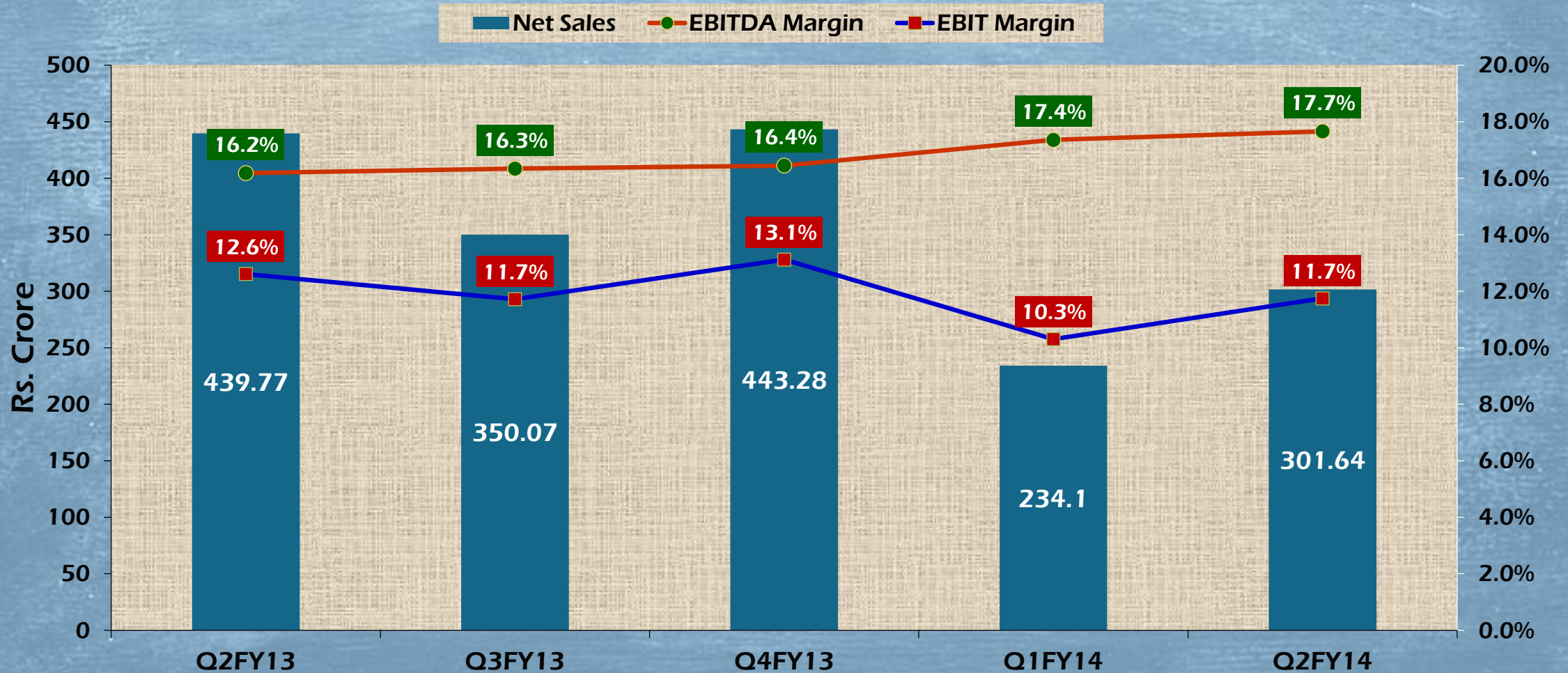
Financial Snapshot (over last 5 quarters)

In Rs. Crore (except EPS)

	Q2 FY13	Q3 FY13	Q4 FY13	Q1 FY14	Q2 FY14
Net Sales	439.77	350.07	443.28	234.10	301.64
EBITDA*	71.16	57.20	72.91	40.63	53.27
EBITDA Margin	16.2%	16.3%	16.4%	17.4%	17.7%
EBIT	55.46	41.02	58.15	24.12	35.43
EBIT Margin	12.6%	11.7%	13.1%	10.3%	11.7%
Forex gains/loss	-	(12.98)	2.58	(15.32)	(9.20)
PAT	35.91	11.52	35.14	(9.32)	5.06
PAT Margin	8.2%	3.2%	7.9%	N.A.	1.7%
EPS	8.99	2.88	8.80	(2.33)	1.27

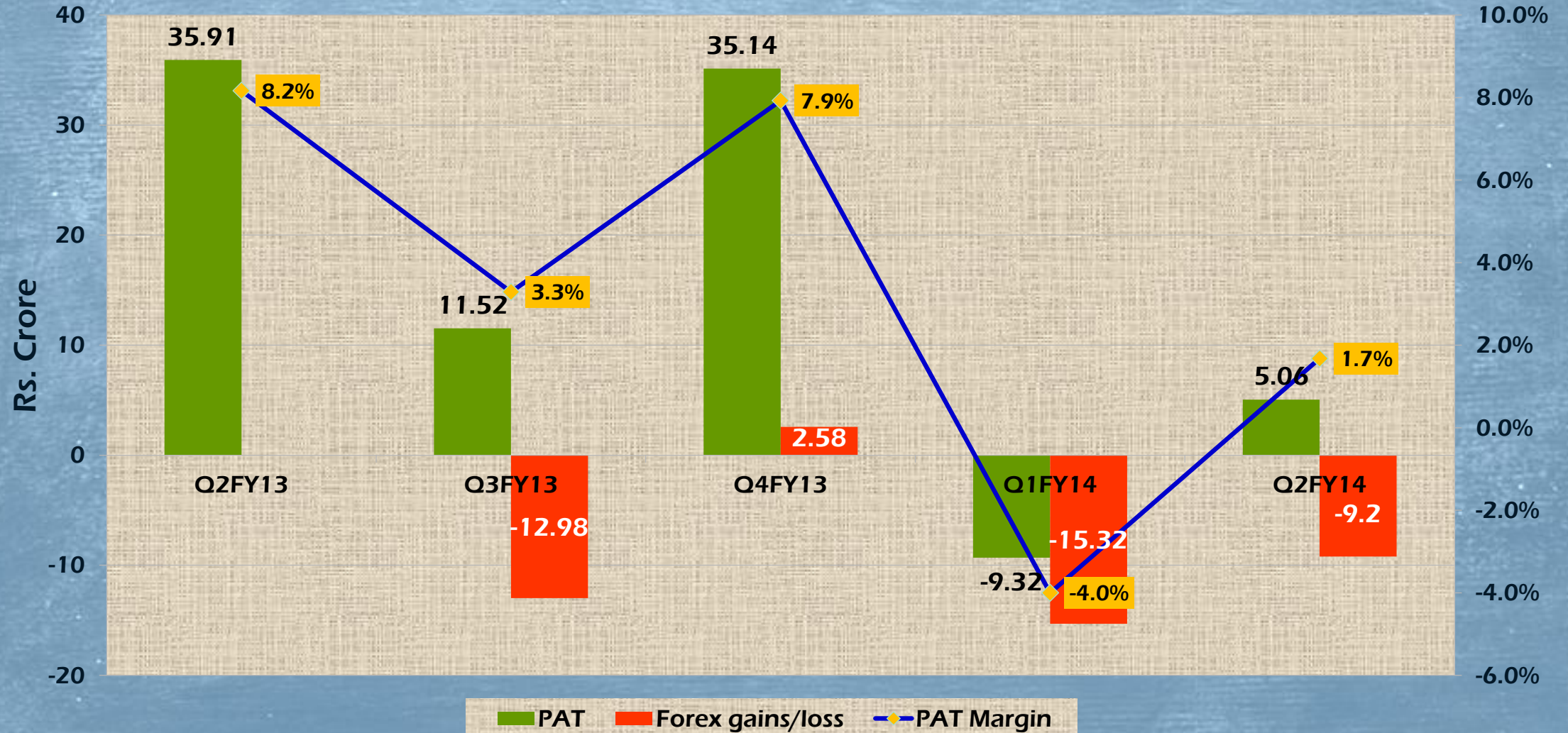
* EBITDA includes Other Income & excludes Exceptional Items

Sales & Operating Margins



Note - EBITDA includes Other Income & excludes Exceptional Items

Impact of Forex on PAT Margins



Segmental Performance – Graphite Electrodes

In Rs. Crore

	Graphite Electrodes		
	Q2 FY14	Q1 FY14	Q2 FY13
Net Sales	294.58	230.85	430.17
Export (% of sales)	77.3%	77.6%	79.7%
EBITDA Margin	10.6%	7.3%	10.1%
EBIT Margin	5.9%	1.7%	8.1%
Capital Employed	1028.73	1109.45	1042.22

- Capacity utilisation at 58% during the quarter
- Pressure on Graphite Electrode prices continues
- Though demand scenario remains subdued, HEG is able to build up its Order Book
 - To be able to substantially enhance its capacity utilisation in the rest of FY14
- Volatility in the forex market continues to affect the results adversely
- Focus on working capital management continues to improve capital employed in the business

Segmental Performance – Power

In Rs. Crore

	Power		
	Q2 FY14	Q1 FY14	Q2 FY13
Net Sales	41.72	46.83	67.73
EBITDA Margin	42.8%	45.0%	36.5%
EBIT Margin	37.8%	38.1%	34.1%
Capital Employed	208.86	200.96	210.02

- Generation continues to be affected by lower capacity utilisation in Graphite segment
- Period utilised for overhauling of plants, for optimum utilisation in rest of FY14
- Merchant power prices continue to remain under pressure

Future Outlook

- 1** Robust order book position, ensuring optimum capacity utilisation for rest of FY14. Positive impact of economies of scale, to improve bottom-line significantly in near future
- 2** Higher capacity utilization coupled with reduction in key raw material prices likely to improve net margins and cash generation significantly
- 3** Closure of certain manufacturing facilities announced by global players recently, offers opportunity of enhancing HEG 's market share in these geographies
- 4** Electrodes selling prices likely to stabilize or show some improvement in 2014
- 5** Use of gas as an alternate to fossil fuel, is showing positive results in operating parameters. Plans to achieve an overall capacity utilisation in the range of 70-75% during the year

Thank You



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