



## Q2 & H1 of FY17 Investor Update Presentation

# HEG Limited – Profile

- ❖ HEG Limited is a leading graphite electrode manufacturer & exporter Globally.
- ❖ HEG produces two grades of graphite electrodes - Ultra High Power (UHP) & High Power (HP) - used in manufacturing steel through the Electric Arc Furnace (EAF) route.
- ❖ Exports approximately 65% of its production to about 30 countries around the world.
- ❖ Diversified customer portfolio - ArcelorMittal, Nucor, POSCO, Dongkuk Steel, Hyundai Steel, Saudi Basic Industries, Emirates Steel Industries, 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 76.5 mw (2 thermal power plants & 1 hydro power plant)

# Global Steel Industry

- ❖ IMF downgraded Global growth to slow down to 3.1 percent in 2016 before recovering to 3.4 percent in 2017.
- ❖ World Steel Association (WSA), reported a decline of 0.5 % in world crude steel production to 1197 million tons for Jan – Sept'16.
- ❖ Almost all major steel producing regions registered a negative growth - EU(28) (-4.8%), North America (-1.4 %), South America (-11.4%), Asia (-0.6%), Middle East (-0.8%), Africa (-11.6%), CIS (-0.1%) etc.
- ❖ Chinese production registered a positive growth of 0.4% to 604 million tons in 9M of 2016.
- ❖ India's steel production increased by 5.9% to 71 million tons.
- ❖ Chinese steel export in first 9 months were up 2.4 percent year on year at 85.1 million tons, the highest ever for the period

# Indian Steel Industry

- ❖ India registered a growth of 7.6% in Crude steel production during H1 compared to the same period of last year. Total Crude steel production for H1 is 48 million tons.
- ❖ MIP helped domestic industry to improve their realizations and extend their reach to segments which were mainly captured by low priced imports.
- ❖ Imports during Jan/June 16 were 3.60 mmt compared to 5.50 mmt last year, lower by 37 %
- ❖ As per WSA, Indian steel demand is expected to report show a solid growth in 2016-2017 backed by consumption-boosting reforms and infrastructure investment, but its sustainability is under question as key levels of investment are being provided by the government while private investment remains weak.

# Financial Snapshot (under Ind.AS)

in Rs. Crore (except EPS)

	Q2 FY17	Q1 FY17	H1 FY17
Net Operating Income	199.77	170.85	370.63
EBITDA*	22.24	4.25	26.49
EBITDA Margin	11.13%	2.49%	7.15%
EBIT	3.97	(14.87)	(10.90)
EBIT Margin	1.99%	(8.70%)	(2.94%)
PAT	(13.47)	(28.92)	(42.40)
PAT Margin	(6.74%)	(16.93%)	(11.44%)
EPS	(3.37)	(7.27)	(10.61)

\* EBITDA includes Other Income

# Segmental Performance–Graphite Electrodes

in Rs. Crore

	Q2 FY17	Q1 FY17	H1 FY17
Net Sales	192.70	161.45	361.84
Export (% of sales)	53.21%	59.28%	56.00%
EBITDA Margin	(2.00%)	(9.90%)	(5.70%)
EBIT Margin	(10.11%)	(19.58%)	(14.53%)

- Capacity utilisation at around 65% and expected to go up in the forthcoming quarters, reflected by healthier order book.
- Graphite electrode prices seems to have bottomed out and have flattened since past 2 qtrs.
- Part impact of the cheaper raw material contracted during 2016, realized in Q2.

# Segmental Performance – Power

in Rs. Crore

	Q2 FY17	Q1 FY17	H1 FY17
Net Sales	58.14	36.33	94.47
EBITDA Margin	44.32%	52.34%	47.42%
EBIT Margin	38.72%	43.34%	40.50%

- Power margins have been adversely impacted as the electricity duty exemption available to one of the two thermal units, expired in June 2016.
- Revenue is higher as hydro power plant started power generation during the quarter. It runs full capacity during the 3<sup>rd</sup> Qtr.

# Future Outlook - Steel

- ❖ World Steel Association forecasts global steel demand to increase by merely 0.2% to 1,501 Mt in 2016 vs (-) 3.0% in 2015. In 2017, demand could grow by 0.5% to reach 1,510 Mt.
- ❖ Steel Demand in emerging & developing economies (excluding China) to expand by 2.0% in 2016 and 4.0% in 2017. In developed economies demand to increase by 0.20% in 2016 and 1.10% in 2017
- ❖ Demand in Brazil will start a moderate recovery in 2017. Minor rebound in oil prices helped to stabilise decline in Russia, prevent further deterioration of the Mexican, South American and GCC economies. Lower, unstable oil prices & geopolitical instability undermine outlook for the MENA region.
- ❖ Steel demand in China is projected to decline by -1.0% in 2016 and by -2.0% in 2017



# Future Outlook- Graphite Electrode

- ❖ The graphite electrode business of SGL Carbon, one of the industry leaders, have been acquired by SDK, Japan which is expected to be a major positive for the industry.
- ❖ Favourable impact of industry consolidation is expected in short to medium term, once the acquisition process is complete for SDK.
- ❖ HEG order book for H2 is healthier compared to first half.
- ❖ Imported needle coke prices showing signs of increase and is in turn expected to jack up the graphite electrode prices in 2017.

# Thank You



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