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HEG/SECTT/2017

9th August, 2017

1	BSE Limited 25 th Floor, P J Towers Dalal Street MUMBAI - 400 001. Scrip Code : 509631	2	National Stock Exchange of India Limited Exchange Plaza, 5th Floor Plot No.C/1, G Block, Bandra - Kurla Complex Bandra (E), MUMBAI - 400 051. Scrip Code : HEG
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Sub: Investors presentation on the Unaudited Financial Results of the Company for the quarter ended 30th June, 2017.

Dear Sir,

Please find enclosed a copy of Investors presentation on the unaudited financial results of the Company for the quarter ended 30th June, 2017 for your information and record please.

Thanking you,

Yours faithfully,
For **HEG LIMITED**

Quick
(VIVEK CHAUDHARY)
COMPANY SECRETARY

heg.investor@lnjbhilwara.com

Encl : as above

HEG LIMITED

Corporate Office :

Bhilwara Towers, A-12, Sector-1
Noida - 201 301 (NCR-Delhi), India
Tel. : +91-120-4390300 (EPABX)
Fax : +91-120-4277841
Website : www.lnjbhilwara.com

Regd. Office :

Mandideep (Near Bhopal) Distt. Raissen - 462046
(Madhya Pradesh), India
Tel. : +91-7480-405500, 233524 to 233527
Fax : +91-7480-233522
Website : www.hegltd.com

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Q1 of FY18 Investor Update Presentation

HEG Limited – Profile

- ❖ HEG Limited is a leading graphite electrode manufacturer & exporter Globally.
- ❖ The company produces two grades of graphite electrodes - Ultra High Power (UHP) & High Power (HP) - used in producing steel through the Electric Arc Furnace (EAF) route.
- ❖ Exports approximately 60% of its production to about 30 countries around the world.
- ❖ Diversified customer portfolio –supplying large proportion of our volumes to top 20 steel companies of the world.
- ❖ Graphite electrodes manufacturing plant (capacity of 80,000 tons per annum) located at Mandideep in Madhya Pradesh - is the largest single-site facility in the world
- ❖ Captive power generation capacity of around 76.5 mw (2 thermal power plants & 1 hydro power plant)

Global Steel Industry

- ❖ World Steel Association (WSA), reported a growth of 4.5 % in world crude steel production to 836 million tons for H1' 17 vs H1' 16 .

Crude Steel Production	2014	2015	2016	Change 2016 vs.2015	2017 (Jan - Jun)	Change 2017 vs.2016 (Jan -Jun)
World	1670	1615	1628	0.80%	836	4.5%
World without China	848	816	820	0.50%	416	4.5%
China	822	799	808	1.10%	420	4.4%

Growth Areas	% ↑	% of world pdn
Asia	4.6	70.9
N. America	2.5	7.06
Middle East	9.5	1.9
EU	4.1	10.59
S. America	10.7	2.61
Africa	11.2	0.8
Decline Areas	% ↓	% of world pdn
CIS	-0.3	6

- ❖ India produced 49.48 mmt crude steel posting a growth of 5.36% in H1'17 vs H1'16
- ❖ World Electric Arc Steel production grew by approximately 8% in H1 '17 vs H1'16.

China's pollution crackdown & Graphite electrodes Scenario

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

China's pollution crackdown & Graphite electrodes Scenario

- ❖ In first six months of the year, Chinese steel exports fell by 28% to 41 million metric tons.
- ❖ Billet exports from China have now come down immensely, helping in increase in melting regions like Turkey, South East Asia and Middle East, leading to increased demand for electrodes.
- ❖ Environmental crackdown has also affected Graphite producers in China in a big way, leading to closure of around 50% of Graphite capacity.
- ❖ China is experiencing tremendous shortage of electrodes internally. All of above has led to a sharp increase in prices of GE within China.

China's pollution crackdown & Graphite electrodes Scenario

- ❖ The main raw material Needle Coke is finding an alternate usage in the industry to make Lithium Ion batteries thus putting pressure on supply side.
- ❖ There have been closures of several Graphite plants over the past few years and consolidation in Graphite Industry.
- ❖ Hence we are witnessing an upsurge in Graphite Electrodes demand globally which is now outweighing supply for the first time in a decade, which means
 - improvement in prices in the global marketplace and
 - China's participation in global trade has suddenly reduced considerably.

Financial Snapshot

in Rs. Crore (except EPS)

	Q1 FY18	Q4 FY17	Q1 FY17	FY17
Net Operating Income	213.71	267.19	173.87	896.02
EBITDA*	24.12	30.65	4.25	87.78
EBITDA Margin	11.28%	11.47%	2.45%	9.80%
EBIT	6.33	12.43	(14.87)	13.87
EBIT Margin	2.96%	4.65%	(8.55)%	1.55%
PAT	(8.43)	(3.86)	(28.97)	(50.10)
PAT Margin	(3.94)%	(1.45)%	(16.66)%	(5.59)%
EPS	(2.11)	(0.97)	(7.27)	(12.54)

* EBITDA includes Other Income

Segmental Performance – Graphite Electrodes

in Rs. Crore

	Q1 FY18	Q4 FY17	Q1 FY17	FY17
Net Sales	212.42	258.81	172.16	870.25
Export (% of sales)	63%	63 %	60%	60.0%
EBITDA Margin	1.53%	2.15%	(9.13)%	(1.78)%
EBIT Margin	(5.41)%	(4.64)%	(17.84)%	(8.81)%

- Capacity utilisation at around 71% during the Qtr. Order book healthy.
- Though the trend of sale price & volume increase visible, 1st Qtr supplies continued at old prices, thereby affecting margins adversely.
- Both imported and domestic raw material and input prices have increased significantly due to increased demand.

Segmental Performance – Power

in Rs. Crore

	Q1 FY18	Q4 FY17	Q1 FY17	FY17
Net Sales	54.24	58.42	36.32	216.93
EBITDA Margin	38.48%	48.26%	52.34%	47.61%
EBIT Margin	32.83%	42.27%	43.34%	41.72%

- Tawa nagar hydro facility is rain dependant and hence do not operate in Q1 of each financial year, affecting both top line and bottomline (vis a vis previous Qtr).
- Inadequate supplies from SECL, forced the thermal unit to procure high priced coal from the market.
- Capacity utilization in this segment is fully dependant on graphite requirement and is inching up accordingly.

Future Outlook

- ❖ Higher production through EAF route envisaged, as the cost balance tilts in favor of EAF over BOF route.
- ❖ Recent Industry consolidation in Graphite Electrode Industry to improve capacity utilization going forward.
- ❖ Electrode sale prices expected to increase with the enhanced capacity utilisation levels in the Industry.
- ❖ Electrode market likely to stabilize at higher utilization levels during FY 18 vis a vis FY 17.

Thank You



For investor enquiries, please contact:

Mr. Raju Rustogi – CFO & COO
HEG Limited
Ph: +91 120 244 4541
Fax: +91 120 254 1575
Email: r.rustogi@Injbhilwara.com