



HEG Limited Q1 FY19 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good day and welcome to the HEG Limited Q1 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and 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 ‘*’ and 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 our first concall for the current financial year. HEG has had a very satisfying first quarter. Thanks to a very robust global market conditions and pricing of electrodes which in turn is based on an upturn in the global steel sector. As you all understand all this has been due to sudden spurt in steel production through electric arc furnace segment in the western world due to sharp drop in export of finished steel from China which has come down by about 40% to 45% over the last two years. We believe by the end of current year 2018 steel production in the rest of the world without China through electric arc furnace would have grown by more than 11% to 12% as against a very flattish curve that we have seen since 2010.

To put a rough figure to this 11% to 12% growth in the electric arc furnace segment in these two years it is somewhere in the region of 40 to 50 million tons and just to remind you once again this has happened at a time when a little over 20% of the world graphite electrode capacity was shut down in the western world in the past four, five years due to no demand. This has put an immense pressure on the current graphite electrode capacities to suddenly ramp up their production and meet this increase demands which in turn has led to a spurt in electrode prices around the world. Shortage of needle coke has also added to this current situation. Now turning to our own country India’s production in first half of 2018 India production of steel I meant has equaled that of Japan and India is now poised to surpass Japan to become the second large steel producer in the world after China.

With a consolidation in the steel industry that we have seen currently in India where a couple of large steel plants has already been acquired by the existing large steel industry players and some more acquisition which are likely to happen in the near future. We see a significant consolidation in the steel industry at home which also augers well for our industries. As these large players are likely to ramp up their production in the immediate future. Friends what we have been hearing from different sources in the industry China focus on cleaning up the environment continuous to strengthen. A further winter clamp down on 82 different steel industry areas is likely to be seen later this year reducing some more environmentally unfriendly steel capacity in China.

Furthermore, we have lately seen that electric arc furnaces which were earlier constraint to produce certain automobile and other special steel products have also entered the segment due to technological advancement in the electric arc furnace industry. Now these EAF are encroaching upon certain segments of steel which were hitherto to only reserve for the blast

furnace sector thereby helping more and more production through electric arc furnaces in the future. All these augers well for our industry and we continue to see a strong demand for our products in the foreseeable future. Our industry continuous to be constraint by the lack of large fresh capacities coming in. This is a significant and structural change led by the Chinese steel sector. The demand supply mismatch in electrode is in our favor and the global supply remains in the hands of only handful of companies in the world and the lead time for any new Greenfield plant capacities to be created is not going to be less than four to five years and on top of that as we all know because of growing concern on the availability of needle coke.

HEG is now a totally debt free company both long term and short term and currently we have a net cash of Rs. 370 crores in our treasuries as on 30th June. We continue to seriously evaluate debottlenecking our plant from its current level of 80,000 tons to about 100,000 tons and we have appointed a very well-known consultant to work with us. We are in touch with all the supplier of equipments necessary for this debottlenecking both in India and internationally and we hope we would something more specific to share with you in the next few months once we are ready with a full report. Friends I thank you very much for patiently listening to me. I also take this opportunity to thank all the investors, bankers our employees and suppliers who have stood with us for the last four decades.

I would now hand over the floor to our COO cum CFO – Mr. Raju Rustogi to take you through all the financial numbers and then we will be very happy to answer any queries that you have. Over to Mr. Raju Rustogi.

Raju Rustogi:

Good afternoon friends. I would quickly run through the numbers of Q1 FY19 and then we will be happy to take questions. For the quarter ended June 2019, HEG recorded a net operating income of 1587 crores as against 1292 crores in the previous quarter a jump of nearly 23% quarter-on-quarter and nearly 642% year-on-year for the same period. EBITDA including other income which stood at 955 crores in the previous quarter has increased to Rs. 1196 crores a jump of nearly 25% quarter-on-quarter and nearly 4800% year-on-year for the same period last year. Company recorded a net profit of 770 crores in Q1 as against profit of 634 in the previous quarter. Since turnover is a factor of both volume and prices we are happy to inform that the company has been able to achieve a healthy growth in both the aspects. There has been a significant change in the industry scenario as a result of China development where were explained by our Chairman just now.

Though there has been a sharp increase in the prices of almost of all the primary raw material. The ratio of raw material consumption and the percentage of sale has come down to nearly 13% as the increase in sale prices are relatively higher. Net sales and also the segment results in the power segment are lower in Q1 of current year as we have been able to negotiate a mutually beneficial term with the government utility company and replaced part of our high cost self-generated power using government utility now. This step has not only reduced the volume of captive generation and transfer to graphite, but also reduce the average realization in power segment as the revenue in power segment is booked based on corresponding rate of power defined by the state and utilities. This step though has reduced revenue and bottom line

in the power segment of ours but has had a very favorable impact on the overall cost of power consumed in graphite segment of graphite electrode.

The increase in annual employee benefit expenses over the same period of last year is primarily on account of the profit or the performance related incentives as well as the commission payable to the chairman under his contractual term. The finance cost during the quarter has been negligible as we are practically a debt free company since almost last three months. Debt has been reduced to almost zero level and I think as chairman informed we are running treasury operation and at this moment around 500 crores of invested money giving us returns that is all from my side. We are open to taking questions from now.

Moderator: Ladies and Gentlemen we will now begin the question and answer session. The first question is from the line of Sumangal nevatia from Macquarie. Please go ahead.

Sumangal nevatia: First question with respect to needle coke cost, can you just explain what is the exact lag in terms of consumption cost I think current quarter cost is at around \$1500 whereas spot is 3,500 to 4,000 and when do you expect which quarter the current spot catch up in the consumption cost?

Raju Rustogi: Our purchase cycle for imported needle coke is two and half months of shipment which transit from the party port to our place in India is and then it takes about two and half months to convert the raw material into finished goods and we have about one month of inventory in the plant as well. So, all in all this imported needle coke cycle is between five to six months. So, the lead-lag effect in our case generally happens from the price change to the coming six month and onward.

Sumangal nevatia: Sir in terms of overall industry what sort of needle coke capacity addition are you looking at over the next one to two years, do we have any increase in supply commitment from suppliers?

Ravi Jhunjunwala: See as we have been speaking in the past for the time being there is only this American company ConocoPhillips which is supposed to be going through a process of debottlenecking as they call it and as I have also explained in the past this debottlenecking is going to be operational any time very soon and this number we do not know for sure what that number is, but my guess is we are talking about something in the region of 30,000 to 40,000 tons, but given that this is happening after a long time I am not sure whether this will take some time to stabilize I mean this additional 30,000, 40,000 tons that we are talking about how long it will take to stabilize on an annual basis. So, that is what it is as far as this is concerned and as far as others are concerned we have not heard anybody speak about any further debottlenecking any time soon.

Sumangal nevatia: One last question if I may squeeze in so current needle coke the spot cost should hit us in the P&L in the second half of this financial year, so at this moment do we have any visibility as to we will be able to pass on this cost in the graphite prices and maintain at least the current level of profitability?

Ravi Jhunjunwala: As Mr. Rastogi explained our purchases of coke is also from three or four different sources and there is no particular time that is common to everybody. So, in some case it is quarterly and in some cases it is six monthly. So, the needle coke that we have at any point of time is a mixture of three or four different kind of pricing and it really depend upon which coke we are using and which month. So, it is a different question to answer, but more or less what you are saying is correct I mean as Mr. Rustogi explained it is 5 to 6-month cycle and major supplies come from Philip and those prices have changed from first of July.

As far as pricing is concerned we are fully committed on a price for a current quarter and for Q3 and Q4 we are currently in the market. We have started speaking to our customer we have started taking some orders and all I can tell you at this moment is the demand is pretty strong and we see some increases in price in any case if not much, but we do see a very strong demand and as I said in my opening remarks. What we are hearing from China is that and this has what happened last time also, last year also where the winter there becomes much more stringent then the past six to nine months and they have already announced that they are covering 82 more cities in town in the winter plan. So, we do think that lot more blast furnace capacity and induction furnace capacities in China could shut down once again which is going to create a larger drop in the export of Chinese steel which in turn has helped the other part of the world the rest of the world to produce more steel through electric arc furnace.

Moderator: The next question is from the line of Atul Nebhani from Aviva. Please go ahead.

Atul Nebhani: I have known that you have been telling that we are running debt free company in last one plus years I guess, so I want to know what are your plans with surplus cash which you have I know I saw your interview the day that you cannot mention something which unless it is materialize about something which you can share in the public forum?

Ravi Jhunjunwala: As we just mentioned as Mr. Rastogi spoke about a treasury of about 500 crores as of today I mention 370 on 30th of June so obviously and we continue to increase this treasury on a weekly basis so we are obviously looking at various option out how best to utilize this and as I have always said it is too early to speak about it and you know any diversification or any expansion it does take its own time before you even we are able to make up our mind and before you have done all your exercise on various options that you have. So, until that time as I said in my opening remarks as far as the debottlenecking of the graphite plant is concerned we are quite at an advance stage of our preparations and in the next few months we should be able to pinpoint a number in terms of investment and more important than investment is the time because that is where we are seeing a bigger issue. As of now it does not seem that this debottlenecking is also going to also going to take at least anywhere between two to three years and I cannot tell you anything more specific at this moment until we have chosen our scope of technology, we have chosen our scope of suppliers and equipments. Some of these equipments are fairly long deliveries and as far as our records if you look at our last 10 years, 12 years record as a company on the payout we have more or less maintained a ratio of between 30%, 35% and if I remember correctly our last year payout like 38%, 39%. So, there

is no reason to believe that we will not do it I mean obviously we will continue to follow the same policy.

Moderator: The next question is from the line of Abhisar Jain from Centrum Broking. Please go ahead.

Abhisar Jain: Sir just wanted to understand if the contracts for the needle coke with the US suppliers, the Philip 66 for the next half of the year would have kind of been done by now, so what kind of increase has we seen in the needle coke price for the next half?

Manish Gulati: Again, this figure has been floating in the market and I am confirming once again that we had a semiannually or let say six monthly contract with this American company on half yearly basis. So, we have just got into this contract for the second half which is July, December so we are going by the calendar year and not by financial year and depending upon the different qualities of coke there is not one quality of coke that we buy. So, depending upon what that quality is it is anywhere between \$3,000 and \$3500.

Abhisar Jain: The increase versus the first half would be what percentage approximately?

Ravi Jhunjunwala: I am sure we have spoken about this number let say earlier than this would have been about \$2,500.

Abhisar Jain: In terms of the capacity utilization so first quarter we were at close to 82% and was that slightly on the lower side due to needle coke issue or also some operational related front?

Ravi Jhunjunwala: As we have spoken in our last call we had guided to annual utilization of high 80s for the whole year. So, we are on track to do that and so the full impact of that was not available in the last quarter. So, we have gone as you said low 80s we have increased from 80 and going forward we are still pricing to an overall high 80s. So, on quarter-on-quarter we will keep improving on that number.

Abhisar Jain: Sir just one clarification on this Philip 66 debottlenecking of the capacity so sir in this also is the correct number known to the industry or is it anywhere between 30 to 60 because in some areas or places we see 50 to 60 and also 30 to 40 and I know you have told us before that whatever that increase is they are more or less largely going to distribute it proportionately to the five, six players which are there in the industry, but what that number is going to be?

Ravi Jhunjunwala: I am just trying to clarify in between graphite producers plus for the battery use.

Abhisar Jain: So, I think 15%, 20% for the lithium iron and the remaining for the electrode guys right.

Ravi Jhunjunwala: That is my guess I mean I am only talking from our past experience in past whatever Philips has done in the last couple of years let say.

Abhisar Jain: Sir but what is that exact number, is there a clarity on that number exact what the capacity will be added?

Ravi Jhunjunwala: Again, you see in these kinds of industries it is very difficult to put a number because like in case of electrodes there are so many different sizes and so many different kinds of electrode that we are talking about to pinpoint a particular number becomes very difficult. I mean unlike most of the plants in the western world, most of the other large producers of electrodes have three or four plants at different location. So, they dedicate one plant for one particular type and one particular size and so we do not have that luxury because we have one large plant which has its own advantages on the one side, but to that extent we do not have that luxury to dedicate one full plant and take full advantage of the economies of scale for one particular product. So, depending upon the mix of what we are producing for the next three months or six months that numbers keep changing. So, it is more or less similar analogy for the needle coke supplier because they produce three or four different kind of coke.

So, depending upon which coke is in maximum supply demand where they keep changing their proportion of that mix of three or four varieties and all these three, four varieties have different numbers I mean if you do one particular variety then it is a different number and as soon you mix three more into that the total number reduces. So, but again this question is very early to ask I mean neither we are aware about it nor I guess to some extent even the producer is not fully aware about that. So, how long it will take to stabilize this whole operation, it can take one month, it can take six months. It is a totally new debottlenecking, so they are also not very confident about any very specific numbers.

Abhisar Jain: But they will be starting to supply these incremental volumes sometime by the end of this calendar year?

Ravi Jhunjunwala: My guess is earlier than that last quarter October, December quarter.

Abhisar Jain: One last thing on the China EAF capacity addition that has been talked about the new EAF that they are constructing, so any update there in terms of the progress of those 105 EAF with 65 odd million ton capacity addition?

Ravi Jhunjunwala: Update is let say until 2016 end that number has been in the region of about 50 million ton and according to the data that we have by end of 2015 that 50 million ton became 75 which means they added 50% of what they have been producing for last many, many years they added 50% on that 50 became 75 and to the best of our information this 75 is likely to be close to 100, 105 million ton this year. So, which means in the last 18 months or so they would have double their electric arc furnace production from 50 to 100 million tons and according to what they want according to whatever policy announcement that they have made this 100 is likely to be in the region of 150 to 160 by 2020.

Moderator: The next question is from the line of Devang Sanghvi from ICICI Direct. Please go ahead.

Devang Sanghvi: My question is regarding to the industrial side of it around 30% of steel produce will now be reaching the EAF global in CY18 itself, so where do we see this number going forward in the next two to five years?

Ravi Jhunjunwala: When you said 30% this includes China just to clarify that. So, if we divide the whole world of steel into two parts. One being China and the other being everybody else the rest of the world that is where the anomaly has been that China until let say 18 month ago reduced only about 6% of their total steel through electric arc number to put this number in perspective roughly speaking it will take a couple of million tons here and there if you assume that the world production of steel has been in the region of 1625 million tons. China has been doing about 50% of that let say 800, 810 and the rest of the world has been the balance 810. So, out of that 800 million tons of China, China has been producing about 50 million ton so which is about 6.5% whereas the other part of the world which also produces a similar 800 million tons there this figure is closer to 47%, 48% so 380 to 400 million ton out of a total of about 800 and that is how this average comes to something like 30%.

So, when we speak about what is likely to happen I mean we have to always divide this into two parts as I was trying to explain to our colleague in the previous answer from 50 million tons of electric arc furnace which used to be 6% of China production this 50 has become 75 by end of last year and that 75 is going to become 100 by the end of this year so which means that 50 is becoming 100 in less than two years' time and the government announcements says that it is going to be 160 by 2020 and as far as rest of the world was concerned we have seen a very sharp increase in the rest of the world electric arc furnace production and I said in my opening remarks between 2016 and 2018 that growth has been anywhere in the region of 11% to 12% so which is something like 40 million ton, 45 million ton and that is where the spurt in the demand of electrode came in that 40, 45 million tons of additional steel production happening through electric arc furnace outside of China has meant that the demand of electrodes have shot up about 70,000, 75,000, 80,000 tons and at a time when about 20% to 25% of the electrode capacity outside of China were shut down and that is how this imbalance started happening.

Devang Sanghvi: So, this can go to 35% range in say three years or five years' time period that is a good assumption to take because both ROW as well as China are growing?

Ravi Jhunjunwala: It will certainly become 35 if China is adding 100 million tons in the past two years and the next two years that is a very substantial increase if you total up the total electric arc furnace including China which has been in the region of 420, 430 million tons up till now obviously if it is adding another 100 million ton then you are talking of north of 525 million tons.

Devang Sanghvi: Maybe in terms of incremental demand the players in the industry have their additional capacity to cater to this demand at the moment we are at around 90% plus the whole industry at China, so do not we think that the expansion should be happening quicker in terms of the utilization level so that we can cater to this incremental demand going forward one kind of exception or maybe the limitation is in needle coke availability.

- Ravi Jhunjunwala:** Second issue apart from needle coke is the time and as I just explained a debottlenecking in a graphite plant itself is not a very quick process I mean some equipments are very long delivery equipments which have to come from Europe, America and a lot of these furnaces are civil furnaces for which you have to go 3 meters, 4 meters, 5 meters into the ground these are underground furnaces. So, the civil time itself is a very long time. So, at least in our case it does not seem possible that we will be able to debottleneck anything substantial from 80 to 100,000 tons. It will take minimum anywhere between two and three years as I said.
- Devang Sanghavi:** Any ballpark CAPEX numbers we can put to this particular expansion?
- Ravi Jhunjunwala:** I will hesitate to put a number right now as I said we are working with a very well reputed consultant right now and it is a matter of another three to four months' time that we will have all this in hand.
- Devang Sanghavi:** In terms of the quarter what could be the domestic in export mix for Q1?
- Ravi Jhunjunwala:** Roughly speaking it has always been two-third and one-third you can take a couple of percentage here and there.
- Devang Sanghavi:** And that is expected to remain for the whole year itself?
- Ravi Jhunjunwala:** Yes.
- Devang Sanghavi:** And with this 25% duty what Trump administration has levied we have seen a significant jump in US steel production, so are we seeing orders from the US side off late.
- Ravi Jhunjunwala:** So, long as we are not exporting to China so long as we are not competing with the Chinese electrodes because of the two different kinds of products that we produce UHP non UHP any drop in steel export I mean this duty of 25% obviously means that will be less of Chinese steel exports going into US so to that extent the steel production will increase and obviously they want more electrodes for more steel and that market was never supplied by China in any case. So, if US or Europe start producing more steel and they produce in case of US about two-third of their steel is produced through electric arc furnace. So, if US is going to add 4%, 5%, 7% of steel production because of less Chinese steel imports coming into US two-thirds in any case is produced through electric arc furnace. So, to that extend the electrode demand is likely to increase to the extent Chinese steel exports are dropping.
- Moderator:** The next question is from the line of Maulik Shah from Inquest Advisors. Please go ahead.
- Maulik Shah:** Sir just wanted to understand you spoke about Chinese players coming up with the EAF steel once that comes up and as we know that Chinese have been using low grade of electrode so I mean at that time would we see the overly EAF steel products?
- Ravi Jhunjunwala:** Second part of the question is not very clear I have understood your first part.

- Maulik Shah:** All I am asking is once China comes with this steel production who have the EAF route would it affect the production back in the western world and China will again supply those at lesser price and it has been going in past and that would affect the graphite electrode demand?
- Ravi Jhunjunwala:** Are you talking about electrodes going to US or you are talking about steel going to US?
- Maulik Shah:** I am referring right now the spurt in the world steel production which has happened is due to the fall in the production by China?
- Ravi Jhunjunwala:** No because of drop of steel exports to China not graphite.
- Maulik Shah:** Right sir drop of steel exports by China but I mean close down of blast furnace and they taking the entire time to come up EAF so my point here is China comes up supplement that glass furnace steel production why are the EAF route so I mean it will again come back on the production level where it was would it then affect the world steel production which it has got the boom right now because of the Chinese closure of blast furnace.
- Ravi Jhunjunwala:** Number one China is still growing by 7% to 8% so when they have closed let say 130, 140, 150 tons of steel capacities their domestic demand for steel is still not going down, they are still growing as I said by 7%, 8% so what they are doing is they are replacing environmentally unfriendly blast furnaces and induction furnaces and replacing them by what you call electric arc furnaces. So, if they have closed 150 million tons already last year and as I also said that they have already announced that in the coming winter season we are going to add another 82 towns and cities to affect this kind of a closures once again. So, if they are closing let say 100 and they are replacing only 50, 60, 70 through electric arc furnace at a time when their requirement is still growing by 7%, 8% so that mismatch is going to be there in any case because they are not adding so much of electric arc furnace as what they have closed they have closed maybe 140 million tons, 150 tons I have no idea maybe they will close another 50 million tons so let say if they have closed 180 or 200 million tons in these two years what they are adding on electric arc furnaces is no more than 100-110 million tons for the time being in this same period of two years. In a market where their own growth is still 7%, 8% and on top of that we are speaking about the duties and protection on steel against Chinese not only in America. but in Europe and things like that.
- Maulik Shah:** So, we see that world steel production will continue at the same as it is going right now?
- Ravi Jhunjunwala:** That is what it looks like.
- Maulik Shah:** So, do we see these prices what we are enjoying right now to be sustaining and I mean what can be the eventual solution to this thing and we understand the graphite electrodes is no longer being a commodity has become like a strategically resource, how will the growth be of world production of steel when we are already running short of needle coke capacity you can produce graphite electrode to fulfill this steel growth that we require right now, so what can be

the eventual solution to it because we cannot grow with the electrode production what we require for steel?

Ravi Jhunjunwala: I wish I had an easy answer to that we are still struggling to find an answer to that your question is absolutely correct so that is what the situation is and that is why we are saying that we do not see any worthwhile change to the contrary in the near-future because if whatever we are discussing is that hypothesis is correct that more and more steel is being produced through electric arc furnace which will require more and more electrodes and on the other side creating new capacities or debottlenecking electrode capacity is a long-term problem it is not a 6 or 12 month issue so that is where the whole problem is I mean so that is why our thought is that probably it is going to continue for some time.

Maulik Shah: We see our company growing strong prices nearly at least for two years?

Ravi Jhunjunwala: I cannot speak about this talk I can only talk about what our plans are on the graphite industries.

Moderator: The next question is from the line of GVN Reddy an individual investor. Please go ahead.

GVN Reddy: I had a question because some of my questions answers were given earlier, but one thing is Chairman sir you have mentioned that you have availability of needle coke for quarter two if I have understood it correctly?

Ravi Jhunjunwala: No, I did not say we have availability I mean the coke is coming every month. So, there is no lag in the coke coming in I mean what I have probably said is that there are different cokes coming at different prices at different times. So, there is a mix of three or four different kind of cokes coming at three different prices because of the time lag. In some suppliers' cases the prices are on a quarterly basis while in some other cases it is half yearly.

Moderator: The next question from the line of Anubhav Sahu from MC Research. Please go ahead.

Anubhav Sahu: Sir I have couple of question one is on needle coke supply of course you have mentioned about ConocoPhillips debottlenecking capacity would be there any time soon. I wanted to understand from you sir that what are the factors which could be needle coke supply right now deliberating, why there is no Greenfield expansion given that two of the key-end markets both lithium ion and graphite electrodes are doing very well for last one and half years?

Ravi Jhunjunwala: It is a very pertinent question that you are asking I mean we have also been struggling to get an answer to that, but whatever discussions that we have had with couple of these producers I mean there are only three or four people who produce needle coke as you know very well, the sense that we are getting is that putting up a Greenfield needle coke capacity is not only extremely expensive, but in terms of the time that it will take to build that capacity is going to be even more than what the graphite electrodes Greenfield plant would be and what we know about industry and what we have heard from some of our colleague in US and in Japan, some

people have mentioned that new Greenfield plant I am talking about will take anywhere between four to five years to build and then maybe another 6 to 9 months or 12 months to stabilize the operation and what we understand from the coke companies is that new Greenfield plant of needle coke is going to be even longer than that. For the time being that is an issue that is clinging not only the graphite industry, but also to needle coke industry.

Anubhav Sahu: Over the years has the technologies of processing needle coke has of the change drastically I mean the kind of fuel which was used for processing the needle coke probably that is not available, and the quality of fuel probably is can you comment on that thing is that an issue?

Ravi Jhunjunwala: I do not think so. I do not think any major technological change, or any major raw material change has taken place, but it is an issue of technology like in graphite there are only five, six players in the world and in the field of needle coke there are only three. It is basically a technology issue nothing to do with raw material.

Anubhav Sahu: My second question is unexpected it maybe little premature to ask on this front but we had a good exposure as far as our export revenue to Iran is concerned it is around 7% I think I wanted your view on that given this sensitivity in the Iran, is there anything which concerns you is anything we can do further on the diversification of export?

Manish Gulati: See our stakes in Iran are not as high and it really does not matter much although and in fact, whenever the situation arises of sanctions usually the Indian and the Chinese supplies have kept on going because Iran is a third largest oil trading partner with India. I am sure some solution will come out soon, but right now our exports to Iran are going to till about end September there is no issue and then later as the clarity comes. So, we are fine both ways we do not have too much exposure and even if we do, whenever the supply has begun, and more than the western world India gets benefitted.

Ravi Jhunjunwala: This is not the first time we are facing this sanction as you remember four, five years ago there was a similar sanction and that was restricted to dealing with Iran on oil products. So, from all angles what we are hearing, and we are being been told is that this current sanction is also going to be in the same manner as it was last time. So, it would be sanction on dealing with the oil and the oil products not industrial products like ours.

Moderator: The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: On quarterly run rate sir what is the cash acquisition we are doing how much net cash are we earning sir every quarter if you could give this calendar year data from January to June?

Raju Rustogi: Saket our EBITDA itself is equivalent of the cash that we are generating so if our EBITDA has been 1100 crores, it is 1100 crores of cash generation for the quarter the income tax that we pay. So, our PAT practically is indicating the currently cash we are generating from Q1 this year and will always be similar to the number of PAT going forward.

Saket Kapoor: What the limitations we have in the industry even the security factor my question toward Ravi Jhunjunwala is this an opportunity for HEG to derisk this business model in trying out with some new verticals because this type of behavior are once in life time opportunity, so how well are you looking because one of your enterprise RSWM is also reeling under debt and it is in a good sector so what is your thought process on that sir?

Ravi Jhunjunwala: All I can say is there are two very divergent schools of thoughts. Some people believe as you suggested rather than concentrating in one area we should de-risk and go into two or three different areas and a very large section of the investors and the bankers also believe that one should just concentrate in the area that your expertise lies in and as I said it is a very difficult question to answer. It is a split kind of a verdict, a lot of people believe this way the other half believes the other way, but as I said we are looking at all the options and as I said earlier debottlenecking of the graphite plant remains our major first priority currently and in the next three to four months' time we will have a full report on that and at that stage we will at least take the decision to go ahead or not go ahead depending on how the whole thing looks like and secondly, from all the discussion that we have had, we believe that this is a very serious structural change so long as the supply side issues are not taken care of and we see that more and more steel production is happening in the world through electric arc furnace which is where electrodes are going to be used. So, the demand of electrode is likely to keep increasing and there is a problem on the supply side where there are only handful of companies in the world it is again a technology issue and then the second major problem is needle coke and the third is the time. As I said it is a matter of anywhere between four to six years before one can think of putting up a Greenfield plant.

Saket Kapoor: Sir in case of the split verdict we do rest with the chairman and the promoter, so you would be the right department who would be taking the call after taking the due deliberations on board?

Ravi Jhunjunwala: You are putting the entire onus on me I mean there is a Board there are so many advisors around the company and these are not very easy decisions and obviously, we are deliberating on all the options that you are talking about and we are still not ready with that answer. This whole thing is very, very recent the whole thing changed extremely fast. So, we are in the middle of all these things right now.

Saket Kapoor: And one more point and I conclude sir, sir whatever little knowledge I have and I also find now paper being the other commonality which is just about to take participating the spurt in which graphite electrodes have happened I mean what has happened to electrode industry paper is moving in that dynamic all together with a demand from Europe coming up, so any view on you also looking because there is a lot of stress assets available in the paper industry, so any views there also sir are you looking for any paper assets, you are doing any homework on that, are you looking into it any assets in the paper sector?

Ravi Jhunjunwala: I really cannot answer that question specifically. I mean we are looking at various options, various stressed assets as you spoke about paper is one of the areas that you are suggesting, but we are looking at couple of options is that all I can say I cannot be more specific than that.

- Saket Kapoor:** Are you looking into it or not that you can at least say?
- Ravi Jhunjunwala:** It will not be right on my part to talk about that publicly.
- Moderator:** The next question is from the line of Rahul Murkya from Jefferies. Please go ahead.
- Rahul Murkya:** Recently last week GrafTech had their conference call and they come up with a presentation they mentioned that spot prices are in the range of \$15,000 to \$20,000 per ton which earlier they had mentioned to between \$17,000 to \$23,000 so just wanted your sense like are we seeing any softening on the prices in the spot market?
- Manish Gulati:** Actually there was a period in which there was lot of panic the spot prices have gone even up to 30 looking in the news, they still continue to be higher you are right you correctly noticed that in the last GrafTech which is 15 to 20 which is fine I mean that is how they look at things but the trend is like that only. In China they have gone up as high as 30,000 so I mean these spot prices keep changing but the long-term view is very, very clear they are fine to say that is between 15 to 20 now.
- Ravi Jhunjunwala:** Somebody is selling 100 tons at 23,000 or somebody is selling 100 tons at 30,000 it does not mean much I mean somebody could always find a desperate buyer to buy a 30,000 or 28,000 that does not give you any indication, the indication is what 90% of the other buyers are buying at.
- Rahul Murkya:** Sir we do not get that number, we just get this number and we have to sense it with respect to this only how the market demand is?
- Ravi Jhunjunwala:** The demand is itself very strong, we are not seeing any let-off on the demand side.
- Rahul Murkya:** Sir second question would be to Raju sir, can you just help me what would be the cash on basis at the end of the quarter?
- Raju Rustogi:** Rahul we have about 400 crores of net cash in our books as on 30th June.
- Rahul Murkya:** Sir in one of the earlier questions you mentioned that we are selling 35% in the domestic market and 65% in export just wanted if you can, is there any price difference between the domestic and export market I mean they are like the same range and do we see any price increase on a quarterly basis in the domestic market as well going forward?
- Manish Gulati:** See definitely the prices in exports are quite higher than what the price at which we are selling in domestic so that part is very clear I will not comment on how much percentage, but very significant percentage higher in exports.
- Rahul Murkya:** I believe in April we took a price hike in the domestic market as well, so do we see price hike, or we have taken a price hike for the second quarter as well?

- Manish Gulati:** We have taken it from July onwards and we are deciding quarter by quarter depending upon all the situations so right now the prices valid for July to September quarter.
- Rahul Murkya:** So, we have taken quarter-on-quarter increase on the price as well?
- Manish Gulati:** Yes that is right.
- Moderator:** The next question is from the line of Patil B from Federal Realty Investment Trust. Please go ahead.
- Patil B:** I would like to know what is the impact of petcoke import ban pertains to raw material import which graphite industries are going to do?
- Manish Gulati:** There has been a supreme court ruling of 26th of July and they are talking about petcoke ban and there are some industries have to take exemptions. Actually, you see right now the four industries which are exempted from it are cement, lime kilns, calcium carbide and gasification and now the calciners, aluminium people and the steel people and graphite people are pursuing the court to grant exemption to us as well. So, but more than graphite aluminum industry is hugely impacted, and we have showed that a resolution would be reach, but yes as we speak this is the current solution.
- Patil B:** Do you basically foresee that a major risk or it is more of an issue which will get subsidized during the time of period?
- Manish Gulati:** It will take some time that is all it is not such a big risk because this has to be convinced and this has to be told very clearly like the other four industries who have taken exemptions in graphite we are using this as our raw material. We are not burning it, we are not causing any pollution, but then we have to make three representations that is all. So, it will be process we do not see as a major risk because there are so many industries involved in this.
- Patil B:** So, that will not hamper the raw material issue, anytime right?
- Ravi Jhunjunwala:** I would also clarify that concern for which this has been banned is the Sulphur which makes it highly polluting what they have planned is very poor quality of petcoke which was used for power generation and all because you could use coke which is 3%, 4% Sulphur. In some far our raw material is concerned as against that 3% to 4% Sulphur which is now banned. The Sulphur percentage if I am right and our kind of coke is less than 1% probably it is 0.2, 0.3 something like that. I am sure Mr. Rustogi will be able to clarify that.
- Raju Rustogi:** Sulphur in the coke that we use is 0.3%, 0.4% and whereas what is the polluting part of petcoke when it is used for as a fuel in the boilers, so we do not use it in our process as a fuel and our Sulphur level is 0.3% 0.4% on the needle coke that we buy.
- Ravi Jhunjunwala:** As against 3% to 4% which is now banned.

- Moderator:** The next question is from the line of Harsh Shah from PM Securities. Please go ahead.
- Harsh Shah:** In the beginning of the call probably I might have misheard excuse me for that but I heard that you said that the demand has been increasing but the realization are not increasing now on from the realization that we had, but lately before two questions you did say that we have taken a hike on realization in this quarter, so have I misheard or what is the state of the pricing right now is the realization increasing or not in the recent contact that we have done?
- Ravi Jhunjunwala:** I think you misheard we never said that the demand is increasing, and price is not increasing. We have never spoken about the specific numbers but going forward, we have only been saying that the demand is solid, the demand is increasing, and the market is strong and that is it.
- Harsh Shah:** Would the reason for this be an any supplier side opening up, are any other players debottlenecking internationally Showa Denko put up additional Brownfield plant so is that affecting, is there supply increasing or which is not letting the prices to go up or is it some constraint on the side of steel markers saying beyond these prices they are not able to sustain or not able to pass on what is the reason for this?
- Manish Gulati:** I think either we have not been clear, or you have joined really late. You see the other suppliers the other graphite companies they already working at very high capacity utilizations. They do not have much room like HEG like everybody else. They are already working at 85%, 90% levels there is not much room. Now the Showa Denko of US was around long back I mean that plant should have been working three years back, but they put that on hold because the market was not good so that is a previously planned expansion other than GrafTech has one ideal plant in St. Mary's in Pennsylvania US and we have just heard that they are thinking about doing it this is all. So, they are not some major expansions coming and in case as Chairman said it takes five or six years for new capacities to come up.
- Rahul Murkya:** In that case why that the pricing power is reducing?
- Manish Gulati:** Nobody said that the prices are reducing, in fact let me clarify once again.
- Ravi Jhunjunwala:** But how do you get this impression that the pricing power is reducing?
- Rahul Murkya:** I am not saying prices are reducing I am sorry if you miss that I am saying that when the demand was robust for the previous year or so we have been taking price hikes quarter-on-quarter now that the rate of increase in the price has come down and you are suggesting that the demand is still very robust, but the price is not increases so I am asking if the power of pricing reducing or what is the reason why we are not able to take a price hike?
- Manish Gulati:** I mean if you compare the price one year back and now there has already been good amount of increase and we do not agree that pricing power is reducing as such. In fact, prices are at a good level and they are still increasing quarter-on-quarter.

- Rahul Murkya:** They are increasing.
- Manish Gulati:** Absolutely quarter-on-quarter they are increasing.
- Rahul Murkya:** Okay there was some misconception on my part.
- Moderator:** The next question is from the line of Atul Mehra from Motilal Oswal. Please go ahead.
- Atul Mehra:** Just one clarification in terms of RM basket now, how much would be needle coke in value terms of cost of raw materials.
- Raju Rustogi:** Cost of raw material I have already stated in my speech.
- Atul Mehra:** Overall 12% you said.
- Rahu Rustogi:** Today our consumption of coke of any kind as a percentage I would say it is 13%.
- Atul Mehra:** And would you be able to say how much this was maybe a year back or something broadly?
- Raju Rustogi:** Year back we never saw any number below 25% to 35% because the realization very, very low.
- Moderator:** The next question from the line of Shani from Search Reading. Please go ahead.
- Shani:** I have few question towards like there are four competitor Showa Denko, Tokai Carbon, GrafTech and Graphite all the four they have accepted their fourth quarter profit they missed the profits target and what exactly is here sitting here again and again I was listening to you bit earlier you have given any one story that China has closed most of the US and you are winning out of it, are you undermining your other competitors and they may see also increasing the capacity altogether fair to really take on the price increase which has been happening across the market?
- Ravi Jhunjunwala:** What was the first question I was not very clear.
- Shani:** I just wanted to know that there are four competitors that is Showa Denko, Tokai Carbon, GrafTech and Graphite all of them have accepted that H2 net profits would miss the targets, how exactly are you really bringing your guidance?
- Ravi Jhunjunwala:** I am not very clear I mean I have not read any statement from any one of these three, four companies that you spoke about saying that in the fourth quarter they are going to miss their target.
- Shani:** H2 quarter profits.
- Ravi Jhunjunwala:** For the next six months you are talking about right.

- Shani:** Yes.
- Ravi Jhunjunwala:** Which presentation or which company are you referring to I do not think.
- Shani:** All the four competitor Showa Denko, Tokai Carbon, GrafTech and Graphite.
- Ravi Jhunjunwala:** But they are yet to come up with the result I believe it is one or two days later three days later, so we have not read any such report that they are going to miss targets and GrafTech.
- Shani:** Sir you people only targeting the demand from China itself and you are saying that because of the China pleasure you are getting out of the demand through it, aren't you undermining really other competitors?
- Manish Gulati:** Let me put it this way the China situation is being described by us as an impact on the total and not as HEG we do not much exposure in China. We are seeing what has happened in China and its impact within China and to the rest of the world. So, this is what we are talking about I mean there is no other impact on HEG directly with China as such. This is how we are impacting the situation globally.
- Shani:** I would only say one thing sir, I am an investor here. I know this yes you have risen from 400 to 4400. What is your next story coming up that would be my guidance you are staying invested in the company because you cannot always that only the demand factor is the only reason I should be staying invested because demand will be fluctuating, and the prices will be met with suppliers also supplies also, supplies will be increased in coming years?
- Manish Gulati:** Let me put it this way just take out a little bit of time my phone number is on the website just give me a call and I will be very happy to share lot of papers with you and show it to you because I mean there is some lag I mean because this is our bread and butter maybe we do this day in and day out and we will be very happy to share with you some figures and convince you and my number is on the website. So, give me a call anytime when you want.
- Shani:** Do you have any fund-raising plan? You are increasing your capacity, are you planning any fund-raising?
- Manish Gulati:** I think it is best to do offline the one big problem is we cannot hear you properly actually.
- Ravi Jhunjunwala:** I think you have to spend some more time and you need to understand what has happened on the basis what we are talking about for future I mean and as Manish said if we do it offline we can spend one hour with you alone and answer all your questions.
- Moderator:** The next question is from the line of Gunjan Kabra from Niveshaay. Please go ahead.
- Gunjan Kabra:** Sir in continuation to the previous question the petcoke ban I want to ask about the petcoke ban is that the decision for aluminium and steel smelter under consideration for aluminium and

steel so is it that they are not allowed to import as of now also or is it after the decision will come I wanted to confirm that?

Manish Gulati: See I have these papers in front of me. See aluminum people they have filed a petition and there are I have those Supreme Court ruling also with me, so they will come out with a final decision on 1st of October so their application is already filed but yes in the next few days they might not be able to get coke so there might be some temporary disruption for them for aluminum people.

Gunjan Kabra: For us also because needle coke is a type of pet coke and there is no clarification given for that also so are we also facing any problem?

Manish Gulati: See petcoke is used as a general term and needle coke is highest quality of that so we do not pollute the environment, we do not use it as fuel but yes this clarification has to be made from our side, but right now all the statements are coming there is no problem, but I think it is better that we in the next few days we will go ahead and clarify this.

Gunjan Kabra: Okay low-grade Sulphur is still allowed to be import in the country is what I can enforced on your offering?

Ravi Jhunjhunwala: Up till now what Manish is saying that this ban came and then three or four industries were exempted like cement and as we explained and answer to our previous questions the petcoke ban is on certain kinds of petcoke which is used as a fuel for power basically which is like having 3% to 4% Sulphur which is very Sulphur which is highly pollutant. The needle coke that we buy has the lowest possible Sulphur out of any pet coke which is 0.2 to 0.3 instead of 3% to 4%. So, like you said the aluminium industry is going to be the majorly impacted because the coke that they are importing is not 0.2, 0.3%, but I think it is more like 1.5%. So, aluminium industry is seeking clarification from the Supreme Court whether their kind of coke is allowed to be imported or not allowed to be imported because it is not 3.5% to 4% and the intention of the court is to ban the pet coke which is 3.5% to 4%, but unfortunately it is not clarified in the order. So, other people like aluminum and graphite who use pet coke but for different purposes not for fuel or for power with much less Sulphur then what the intention of the court is 3.5% to 4% everybody has to seek a clarification from the court and then that will be exempted. So, that is where we are.

Gunjan Kabra: Sir till the time we do not get an exemption so is there any production cut or there is any import problem that we face is what I meant till the exemption is achieved?

Ravi Jhunjhunwala: For the time being we are still not even clear whether the shipment which are due to arrive let say in the next 10 days, 15 days, 30 days which are on high seas what happens to them again there is no clarity on that whether the ban will affect these shipment which are on the ocean or it will not be allowed to be imported henceforth, so that's another clarification that we need to take from either the Supreme Court or from customs or anybody who can tell us that. But we

do have sufficient stocks of Coke as we speak in the plant. So, at least for the next 2 to 3 months we do not have a problem.

Moderator: The next question is from the line of Dhawal Shah from Girik Capital. Please go ahead.

Dhawal Shah: Your customers, since the cost has gone up because of the Electrode so have they got their pass-on for the entire increase in Electrode cost with their customers?

Ravi Jhunjunwala: We have been asked this question many times in the past. If you look at the last 18 to 24 months the Electrode, let's say 2 years ago or 1.5 years ago, Electrode constituted about 2-2.5% of the total cost for the steel producer. With the current increase in the last 18 months or so it has gone up to about 6-7%. Although looking at the price of Electrodes which has gone up by more than 5x, the percentage of cost of Electrode has not gone up by 5x or 6x because other raw materials have also gone up substantially in the last 18 months. Scrap continues to be between 70% and 75% of the Electric Arc Furnace cost 18 months ago and today as well. So, while all other costs have gone up Electrodes have also gone up, but it has not gone up to the extent of the Electrodes prices have gone up in terms of percentage. And secondly, if you look at the EBITDA per ton of a steel company the kind of EBITDA per ton figures that we speak let's say about four weeks ago or now, that has increased very substantially.

Dhawal Shah: You are saying one month ago EBITDA per ton is right and as on today?

Ravi Jhunjunwala: No, what I'm saying is that Electrode has gone up from about 2% to somewhere in the region of 6% to 7% because scrap prices have also gone up, power prices have also gone up, so the total cost has gone up substantially for the steel companies whereas the Electrode has gone up from 2% to 6-7% rather than 12-13%. And second point which I am making is that if you look at the EBITDA per ton of some of the large steel companies and if you look at those figures today that figure has gone up by about let's say Rs. 4000-5000 per ton.

Dhawal Shah: So, a large element is the increase in the steel prices and now the prices of steel are stabilizing, I would not say correcting, but are stabilizing right now. So, if there is a further escalation in Electrode prices so is it logical that there could be a further escalation from here because typically what you are seeing since the Electrode cycle started the price increase in Steel and Electrode has almost gone hand in hand and that's why this EBITDA per ton is also back to the same level, its not seen the impact. So, is it safe to assume that Electrode should stay at this level and not see a further increase from here because even the steel has to reflect the same thing then.

Ravi Jhunjunwala: Partly you are right but the electrode prices in India are also dependent on the international price.

Dhawal Shah: It's a global commodity like steel.

- Ravi Jhunjunwala:** Yes, it's a global commodity and so long as India is exporting about 65-70% of their total production we have to follow the international prices and the Indian prices are obviously determined by what the international prices are.
- Dhawal Shah:** Because around say, two quarters back we did here in the paper or also in the concall by the steel companies in the newspaper that we have gone to the government and asked them to get a cap on the Electrode pricing and now we have stopped hearing it so now it's all settled or still some push is going on from the steel guys?
- Ravi Jhunjunwala:** What you have heard is absolutely right. There was a proposal to put an export duty on Electrodes but then we were able to convince the government about the effectiveness of that step that they were proposing to take. To give you an example, total capacity of Electrodes in India between the two Indian companies is about 170,000 tons. The total demand of Electrodes in India is no more than 60,000 tons. In the last two years every ton of that 60,000 tons has only been supplied by the two Indian companies. There is no Electrode being imported at all now. So, if we have a capacity of 170,000 tons and the Indian demand is 60,000 tons.....
- Dhawal Shah:** Yes, so on that demand supply point it was valid to not have any export duty, correct.
- Ravi Jhunjunwala:** Yes. So, by putting export duty we will not be able to sell additional 2000 tons in India. The Indian market is not starving because of Electrodes. So, if we are able to produce 100,000 tons more Electrodes than what India can consume obviously we need to export. Again, to clarify one more point, if you look at the overall world picture, two Indian companies control about 23-24% of the total Electrode business of the world. So, even if you take out the 7-8% out of that is India, so between the two Indian graphite companies we have about 15-16-17% of the global market share of the world. So, by disturbing this equation and putting an export duty first of all nothing changes as far as the Indian market is concerned, we cannot sell more than what the demand is, and that demand is being met by the Indian companies in any case. So, there is no reason why there should be a duty. What are we trying to achieve as a country?
- Dhawal Shah:** Last question, in terms of your working capital since you are at a very good position right now are you seeing any benefit in terms of your receivable days?
- Ravi Jhunjunwala:** Its now less than 90 days.
- Dhawal Shah:** Is there a drastic difference?
- Ravi Jhunjunwala:** Yes. It used to be 150 days two quarters back and which is now down to less than 90 days.
- Dhawal Shah:** And expected to reduce further or this would be the norm?
- Ravi Jhunjunwala:** It should reduce slightly more because we have tightened all the credit periods for most of the customers, all of the customers, so it should improve a little bit.

- Dhawal Shah:** And at the same time are you seeing any tightening done by your Needle Coke supply as well because they are also in a very strong position.
- Ravi Jhunjunwala:** You are absolutely right. They are doing the same actually.
- Dhawal Shah:** So, your payable must have gone down.
- Ravi Jhunjunwala:** Yes from 180 days to around 90 days.
- Moderator:** The next question is from the line of Dharmesh Rajdev from BMA Wealth Creators. Please go ahead.
- Dharmesh Rajdev:** I want to understand, of the total Electrodes produced by HEG what is the percentage of Ultra High-Power, that is higher than 600 HP produced by the company?
- Ravi Jhunjunwala:** We would not like to specify that number publicly but directionally I can tell you something that we produce Non-UHP Electrodes by choice. Its not necessary for us to do that but because there is a demand for Non-UHP Electrodes in India and in exports, so we produce it out of choice. Whenever we see a similar margin or a higher margin only on Non-UHP we can produce.....what I am saying basically we can produce let's say practically 100% of UHP if we wanted one day to do but we share a mix of Non-UHP and UHP based on the demand, based on the customers that we have to cater to and without going into very specific numbers or percentages I can say that it has always been in the region of 70:30, 70 UHP and 25-30 Non-UHP.
- Dharmesh Rajdev:** One more question, you reported that China is coming up shortly with huge capacity of Graphite Electrodes. Do you think they will be able to make Ultra High-Power Graphite?
- Ravi Jhunjunwala:** China does have a large capacity for Electrodes as you rightly said but they are mostly makes HP grade Electrodes which are very less proportion of what is truly UHP product. But yes, they do have capacities and there is a big technology gap also, there is a requirement for Needle Coke also.
- Dharmesh Rajdev:** What about the situation on Needle Coke availability?
- Ravi Jhunjunwala:** It is quite tight still because with this new application of Lithium Battery getting added already the Needle Coke was tight and then this lithium battery thing has made it tighter. So, this year with the increase in Electric Arc Furnace Steel resulting an increase in Electro demand plus from Lithium Battery some product going there, so Needle Coke continues to be tight.
- Dharmesh Rajdev:** So, as it is it will be difficult for the new capacities to produce these Ultra High-Power Electrode in China. Does that mean that?
- Ravi Jhunjunwala:** Bot the reasons, there is a technology issue as well and there is lack of Needle Coke as well.

- Moderator:** The next question is from the line of Venkat Iyer, an individual investor. Please go ahead.
- Venkat Iyer:** I want to understand about the capacity that we shut down by SGL, GrafTech. Has it been mothballed, or has it been dismantled and how quickly they decide can it come on stream? It's about 300,000 tons if I am right.
- Ravi Jhunjunwala:** Its actually 200,000 and four out of six plants surely are bulldozed, machinery taken away, they cannot come back, one of them partly and one of them is in a mothballed type of a state which can come back but that is a very small plant, it can come back in a year or so but it's such a small size plant that it will not really add much to the supply.
- Venkat Iyer:** What are those capacities which can come back in a short duration of say 1-1.5 years?
- Ravi Jhunjunwala:** 25,000 tons was the capacity of that plant where it was mothballed. So, now how much time does it take to come back and whether the company is interested on bringing it back...its 25,000.
- Moderator:** The next question is from the line of Jiten Savla from Viteos. Please go ahead.
- Jiten Savla:** I would like to know currently how much cash does the company have and quarter-on-quarter how much we are expecting to generate? Secondly, what is the operating margin the company expects to sustain going forward?
- Ravi Jhunjunwala:** The margins will likely be sustained, and I think Mr. Rastogi has already answered the cash generation question per quarter.
- Moderator:** The next question is from the line of Jitesh Parmar, an individual investor. Please go ahead.
- Jitesh Parmar:** First question is around the new capacity that is coming up in China, the EAF capacity. So, out of this upcoming capacity and what they are planning to do in the next couple of years what percentage in terms of tonnage that you expect would be in UHP? Because primarily we are focusing on the UHP side, so what sort of capacity that you see that might come up in China where they might also request for UHP? And have you had any talk with any client in China recently around this area?
- Ravi Jhunjunwala:** The furnaces which are coming up in China are smaller which will not need much of UHP products. So, they are probably designing it in a way that they don't have to depend on UHP Electrodes because that is a major handicap today. So, the furnaces you will see there are some statements made by several analysts and other people and there is a number floating around, there are 105 plants are coming and which will have a capacity of 66 million metric tons. It means 600,000 tons a plant which is by today's standards half of what it should be. So, I think they have done things wisely and they know that they are self-sufficient for HP grade Electrodes so probably that will be sourced from within China, consumed in China.

- Jitesh Parmar:** In that case if I may ask what would be the price like in terms of range, between HP Electrode and in terms of UHP Electrodes in terms of pricing and realization. I don't want to know the numbers but just wanted to understand that what sort of gap is there in the market?
- Ravi Jhunjhunwala:** Right now, because of the closures of several small graphite companies in China which were making lot of HP Grade Electrodes and supplying everywhere in the market, that was the one which was dragging the other big Chinese companies down on pricing and also worldwide. So, with the phasing out of such one shop type of plants, the pricing of HP and UHP has become very close to each other, really close, that is a very marginal difference between UHP and HP. And earlier the gap used to be wide only because of those small Chinese companies making all kinds of Electrodes, exporting all over the world and they were dragging even the five big companies in China down with those kinds of predatory pricing.
- Jitesh Parmar:** Because I am probably an outsider to this industry, so is it practical to have whatever China is trying to do to have everything okay on just HP Grade Electrode and not to have any UHP facilities or capacity at all, practically is it possible or is it something which is viable?
- Ravi Jhunjhunwala:** If you put up a plant then it takes us 1.5 years or 2 years to have an Electric Arc Furnace plant ready and then when you come in the market and you don't find Electrodes that's a big problem. Is much wiser to start with a smaller furnace and then at least you have security for material. So, probably they are wiser by doing that.
- Jitesh Parmar:** The next question is around our debottlenecking plants, so if we look at our current capacity utilization which is like low ET and if we plant to debottleneck and what I had seen in some of the videos where the management was explaining how the debottlenecking is going to work so what I feel on the back of the envelope kind of calculation around 10% that additional capacity we may add. And equally we might need Needle Coke as well, so if we see, at present we don't know anything else apart from that one company from America who is trying to do the same for Needle Coke and their capacity, if I heard it right, would be around 40,000 tons. If I do a back of the envelope calculation it is like almost we need 20-25% of that additional Needle Coke capacity for our debottlenecking plant. So, is it something which is secure and if not then what would be our plan like?
- Manish Gulati:** Yes, that is a question about where does the additional Needle Coke come from? One debottlenecking which we know of is with Phillips 66 but rest of them outside of China do not seem to be increasing their production or doing any debottlenecking as such. So, what you said is right. If GrafTech says 40,000 tons we say another some 20,000 tons, yes, that's an issue. So, it's going to be difficult.
- Jitesh Parmar:** In that case is there any possibility that we can buy from something like how we at present at the spot for UHP which are very high, something like that we can do to utilize our excess capacity that we plan to debottleneck.

- Ravi Jhunjunwala:** But it's a market place, the Coke suppliers do not work that way, they don't want to get into any kind of a long-term supply agreement. They are offering 6 months by 6 months or quarter by quarter and exactly this is what in the supply chain we are doing with our customers, quarter by quarter, so they don't want to get into any long-term supply agreement, even if it is for the quantity.
- Jitesh Parmar:** Last question, we are seeing a very good healthy cash flow and we maintain kind of around a 35% as a dividend policy. So, are we expecting something more like a quarterly dividend going forward because we are seeing a good healthy cash flow quarter-on-quarter. At present our Quarter 3 was like on an annual basis or on a half yearly basis last year, so is it something which you are considering or is there any plan?
- Ravi Jhunjunwala:** I can't comment on that. Obviously, this is Board decision, but I will only repeat which I have repeated in the past that if you look at our last 10 to 15 years policy record, our payout ratio has been in the region of between 30-35%. Last year I think if I am right or we increased it to somewhere like 38-39%. So, I am sure we will keep sticking to the same policy as far as the returns are concerned.
- Jitesh Parmar:** What sort of cash balance that we would like to see in our balance sheet at the end of this financial year because we do have the debottlenecking plant as well as we are also considering some other options in terms of possible venture into the related carbon area, so what sort of cash balance that we plan to see? What would be our investment strategy or treasury policy for that cash?
- Ravi Jhunjunwala:** I will ask Mr. Rastogi, our CFO to answer that.
- Raju Rustogi:** Dear friend, nobody can plan or project a target cash balance as on the close of the year, so we would definitely not like to have any surplus cash in our balance sheet because doing that we are today also going into treasury operations to get returns from the present level of being idle in my books to at least return people more than that. That is the first easiest option. That is the first easiest option but then we are looking at other investment options also in terms of the Carbon space and expansion or debottlenecking. We cannot target but definitely we are able to utilize the cash to generate more revenues for us.
- Moderator:** The next question is from the line of Devang Sanghvi from ICICI Direct. Please go ahead.
- Devang Sanghvi:** When will be the Needle Coke negotiation next happening, either the quarterly or semi-annually?
- Ravi Jhunjunwala:** It is six-monthly now. We just finalized our price for the second half January to December, so the next discussion will happen maybe in the November end, December beginning for January-June next year.

- Devang Sanghvi:** There we also get the clarity regarding the ConocoPhillips this debottlenecking also, how much has happened and how much can that be supplied to the Graphite players as well as the Lithium and Battery players.
- Ravi Jhunjunwala:** You are right. But as I answered to this question earlier, I believe that debottlenecking is more or less over, and the new capacity Coke should start coming out in the market from the last quarter of this year.
- Moderator:** The next question is from the line of Sayed Ruksana, an individual investor. Please go ahead.
- Sayed Ruksana:** You mentioned in your report that one of your operations is closed because it is seasonal in Tawa. I want to know how much that business contributes to your work. Because you said the profit is going down because its closed next time you are going to increase.
- Ravi Jhunjunwala:** See this Tawanagar is a hydropower generating facility of ours and this is a rain dependent hydropower facility that we have and in this part of Madhya Pradesh the rains start in the month of July-August and we start our Tawa operations by August end or September and it runs up to February of next year. So, every year this is the cycle we follow for generating power from Tawanagar hydropower facility. Now coming to how much, since it is rain dependent, we cannot forecast but we can definitely forecast that it generates about 15-20 crores of profit for the year, year after year for the last 20 years.
- Moderator:** The next question is from the line of MP Soni, an individual investor. Please go ahead.
- MP Soni:** This restriction on Pet Coke on the imports, will this impact our production cycle, or will it have no impact on our production cycle?
- Ravi Jhunjunwala:** There is a clarification to be made, the intent of the Indian government is to protect the environment, they first started with that they will not allow it for burning, then it got extended that they will not allow usage in any form except for a few industries where they were sure that its not causing pollution, then there are Sulphur levels, the one which we get is very low in Sulphur, so there are certain clarifications which we will have to make. Four industries have already got exemption which is cement, lime kilns, calcium carbide and gasification. Now aluminum, steel and graphite there are 3 industries left who have to make representation and convince the authorities that carbon of this product does not cause any harm to the environment or any pollution as such. In any case when Board so far as we speak are all coming in, we have sufficient stocks at plant also in transit so there is no reason for any concern. Maybe it takes 15 or 20 days or a month to clarify, it will be done.
- MP Soni:** You are hopeful that you will be able to get exemption from the Honorable Supreme Court?
- Ravi Jhunjunwala:** Yes, absolutely.

- MP Soni:** One question to Chairman sir, this is regarding the cash flow, the way company is earning quarter-wise, excellent bank balance will be there I think by the end of March 2019, it would be around 3000 crores of the cash balance. So, unless and until you make a good use of this cash flow by way of, say, debottlenecking capacity which will take you say 2-3 years, so this bank balance will remain there in the balance sheet unless and until you distribute it this cash bank balances to shareholders your return on equity or return ratios will be impacted. So, my request is to take it to the Board level. Of course, you cannot decide the dividend or any buy back or any such thing but my request to Chairman is to take it on behalf of the shareholders to your Board of Directors to distribute a large part of this bank balance to the shareholders.
- Ravi Jhunjunwala:** Sure, we have taken note of you and as I said our past 10-15 years record has been about 30-35% which we increased last year, so given the cash flow I am sure we will keep doing whatever we have been doing in the past.
- MP Soni:** This 10-15 years' track record is not relevant here, in the sense we are now earning huge profits which has nothing comparable with the past cash profits. Past cash profits were only normal profits, now there are huge profits. So, you have to take to the Board these extraordinary factors, extraordinary cash flows.
- Ravi Jhunjunwala:** That of course is understood, obviously we discuss all these things in the Board.
- Moderator:** Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to Mr. Ravi Jhunjunwala for closing comments.
- Ravi Jhunjunwala:** Thank you friends and thank you for such probing questions. I think this has been our longest conversation on a concall and I look forward to speaking to you once again in 3 months' time. Thank you.
- Moderator:** Thank you very much sir. Ladies and gentlemen, on behalf of HEG Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.