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24th August, 2021

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Sub: Q1 FY22 Earnings Conference Call Transcript

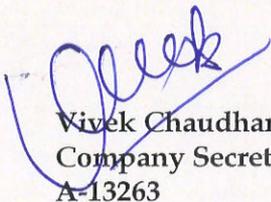
Dear Sirs,

With reference to captioned subject, we hereby enclose the transcript of conference call regarding Q1FY22 results which was hosted by the Company on 16th August, 2021.

Kindly take the above information on record and acknowledge the same.

Thanking you,

Yours faithfully,
For HEG Limited


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“HEG Limited's Q1 FY22 Earnings Conference Call”

August 16, 2021



MANAGEMENT: **MR. RAVI JHUNJHUNWALA – CHAIRMAN, MANAGING DIRECTOR, AND CEO**
MR. MANISH GULATI – EXECUTIVE DIRECTOR
MR. OM PRAKASH AJMERA – GROUP CFO
MR. GULSHAN KUMAR SAKHUJA – CFO

MODERATOR: **MR. NAVIN B. AGRAWAL – HEAD, INSTITUTIONAL EQUITIES (SKP SECURITIES LIMITED)**



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Moderator: Good day, ladies, and gentlemen. Welcome to the HEG Limited's Q1 FY22 earnings conference call.

As a reminder, all the participants' 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 for an operator by pressing '*' and then '0' on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Navin Agrawal – Head, Institutional Equities at SKP Securities Limited. Thank you and over to you, sir.

Navin B. Agrawal: Good afternoon ladies and gentlemen. It is my pleasure to welcome you on behalf of HEG Limited and SKP Securities to this financial results conference call with the leadership team at HEG Limited. We have with us Mr. Ravi Jhunjhunwala – Chairman, Managing Director, and CEO of HEG Limited along with his colleagues Mr. Manish Gulati – Executive Director, Mr. Om Prakash Ajmera – Group CFO, and Mr. Gulshan Kumar Sakhuja – CFO.

We will have the opening remarks from Mr. Jhunjhunwala followed by a Q&A session. Over to you, Mr. Jhunjhunwala.

Ravi Jhunjhunwala: Good afternoon friends and welcome to our Q1 financial year 2022 con-call. In comparison with the last quarter's results, HEG's performance this quarter was stronger supported by improved global steel sector growth which resulted in increase in demand for graphite electrodes and firming up of prices. As per the recent data released by World Steel Association, global crude steel production between January and June surpassed a little over 1000 million tonnes for the calendar year 2021 for 6 months, which was up by a strong 14% compared to 2020. Steel production ex-China was up about 18% and while China increased by 11% compared to 2020. Friends, this is probably after a very very long time that the rest of the world's steel production has grown more than China. Just this morning, we got the July data of Chinese steel production which shows a further fall of about 8% compared to June. Again, after a very long time, that we see a reduction in Chinese steel production month on month. The Chinese government continues to discourage export of steel to other parts of the world. To this effect, in addition to removing the 13% VAT rebate for exports which they have already implemented from 1st of July, they are seriously mulling over a proposal to put an export duty on steel exports. As you are all aware, any reduction in exports of steel from China helps other parts or the rest of the world which incidentally produces about 47% to 48% of its total steel through electric arc furnaces which is our customer base. The Chinese government continues to put in place stringent environmental measures to limit the country's carbon emission level which is directly supporting electric arc furnace capacities to replace polluting blast furnace capacities. Electric arc furnace still constitutes only 12% of Chinese steel reproduction which is 2x of what it used to be in 2016,



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and which as per the Chinese government's announcement, is likely to be around 20% by 2025. Again, this has to be seen in the backdrop where the rest of the world even today produces about 47% of their steel through electric arc furnaces. And especially in the US, we are seeing a very strong growth where between 12 to 15 million tonnes of additional new electric arc furnaces are under construction and most of them are likely to be ready by the end of next calendar year.

Now, coming to India, as per WSA, Indian crude steel production registered a growth of about 31% in the first 6 months – January to June – comparing with the same period last year when steel production was obviously at a record low level due to nationwide lockdown because of COVID. India continues to maintain its position as the second largest producer of steel in the world after China. Despite the second wave of COVID-19, the Indian steel industry performed exceptionally well and has been operating at a very high-capacity utilization level and has yielded record margins in the last couple of quarters.

Steel prices in India and worldwide are at record high levels and are expected to continue to remain strong, driven by a robust demand and also driven by a reduction of Chinese steel exports to the rest of the world. In this backdrop, growth globally and global efforts to reduce carbon emissions coupled with increased scrap generation in China, we believe that the electric arc furnace steel production in the world will grow at a CAGR of anywhere between 3% to 5% in the medium run driving ultra-high-power electrode demand. The electrode prices improved for both UHP and non-UHG grades in Q1 FY21-22 and we expect them to strengthen in the coming quarters due to a robust demand arising from the increased steel production through EAF. In fact, in the last quarter, we have seen the first 6 months' annual level of about 105 million tonnes of electric arc furnace production on a pro rata basis for a quarter which is more or less what we had seen at the highest level of 2017-18.

Needle coke prices are also rising in line with the electrode prices. However, our entire old high-cost inventories, both for electrodes and needle cokes are totally over now and we look forward to improved operating margins during the rest of the quarters for the current year.

Friends, our expansion to increase capacities from 80,000 tonnes to 100,000 tonnes is going on at full swing and we are confident of completing it by the end of 2022 and be ready with commercial production from early 2023. This will increase our capacity to 100,000 tonnes under 1 roof which would be around 35% to 40% higher than the next largest plant. And as you are aware, any capacity expansion – even brownfield – does take a very long time in our business, and until now, we have not heard anyone else announcing any capacity enhancement in the short term.

I would now hand over the floor to CFO Gulshan to take you through the financial numbers and then we will all be very happy to answer any queries that you may have. Over to Gulshan.



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Gulshan Kumar Sakhuja: Good afternoon friends. I will now briefly take you through the company's operating and financial performance for the quarter ended 30th June 2021. For the quarter ended June 2021, HEG recorded a revenue from operations of Rs. 414 crores as against 380 crores in the previous quarter and 233 crores in the corresponding quarter of the last financial year. EBITDA including other income stood at Rs. 94 crores in the quarter as against Rs. 20 crores in the previous quarter and Rs. 35 crores in the corresponding quarter of the last financial year. The company recorded a net profit after tax of Rs. 55.8 crores in the quarter as against a loss of 6.8 crores in the previous quarter on a profit of 10.76 crores in the corresponding quarter of the last financial year. Further, the company in accordance with the amended provisions of corporate social responsibility which mandates incurring of 2% of the average profit of 3 financial years have incurred expenditure amounting to Rs. 6.15 crores during the quarter ended 30th June 2021 and Rs. 34.85 crores during the quarter ended 31st March 2021 and Rs. 41.86 crores during the financial year ended 31st March 2021, which has been included under the head Other Expenses in the published results.

The company is eligible for various export incentives on the exports made. The Central Government of India had announced a new scheme of remission of duties and taxes on export products which had replaced the existing MEIS scheme with effect from 1st January 2021. As the rates under RoDTEP have not been announced till date, the income on account of export incentives under the new scheme has not been recognized for the quarter ended 31st March 2021 and 30th June 2021.

Now, moving towards expansion, our chairman has just said the train is going on a full swing. There was a few months' delay due to COVID and we expect the expansion project to be completed in the quarter October to December 2022 and we will be ready with our commercial production from early 2023. The company is long-term debt-free and having treasury size of approximately 1500 crores as on 30th June 2021.

We would now like to address any questions or queries you have in your minds.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. We will wait for a moment while the question queue assembles. The first question is from the line of Sonali Salgaokar from Jefferies. Please go ahead.

Sonali Salgaokar: Thank you for the detailed initial commentary. Sir, my first question is again regarding the global update in the electrode sector. If you could just update us on the supply side. Sir, you have talked about the demand side, but on the supply side, especially the smaller players which had mushroomed in China, what is the update on the supply on that front?

Ravi Jhunjhunwala: Sonali, while Manish will give you a detailed answer, we have been explaining this in the past also that we do compete with China in about 30% to 35% of our production, which is called non



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ultra high power, but when it comes to the rest of our production which is 65% to 70%, we still don't compete with them and we don't see them in the world market where we are exporting our UHP. Again, even in the non-UHP where China is a player, there are several countries where there have been very substantial anti-dumping duties. It's not a very new development that they have been there in some of these countries for a long time. The US has been having it for the last maybe 5-6 years, and we have information that the EU has initiated the same very recently in the last 3-4 months. And we all know the China + 1 and the anti-China feelings that everybody has currently, even in that sector where we do compete with China which is about one-third of our production, we don't see that threat really very seriously.

Manish Gulati:

I just wanted to add here, sir. Sonali, all the western producers if you take the Showa Denko GrafTech, Tokai none of them are increasing capacity. On the contrary, Showa Denko just closed their plant in Meiteigen and affecting their capacity to the extent of 40,000 tonnes. So, the main western producers which includes Showa Denko, GrafTech. the 2 small Japanese and our Indian competitors, none of them is increasing capacity, and because of which the capacity utilizations because of increase in demand which were about 65% as an industry – the western electrode industry – is now moving up to more than 80%, around 80% to 83%, is what is going to be the global electrode industry capacity utilization. And that is how you see the firming up of prices because the demand is increasing and everybody's capacity utilization is going up and once they reach their 80 level, the prices start to firm up. The other part chairman Mr. Jhunjhunwala has already explained that of course there is a lot of talk about these small, small electrode plants coming up in China, who will be using the coal tar-based pitch coke. So, we really don't see that as a threat to the main western producers and also to us.

Ravi Jhunjhunwala:

And as I just mentioned, while the rest of the world produced about 47% of its steel through EAF, until 4 years ago, China was at 6% and now they have doubled to 12% and they want to reach about 20% by 2025. And 6% going to 25 is almost like more than 4 times increase and you have to keep that in mind. When you are talking about 4 times you are talking of a country like China where the percentages are very misleading. The base number is already so high that 50 million tonnes of electric arc furnaces which they were doing about 4 years ago is currently at about 100-110 and this is likely to be 200 million. So, they themselves will require a huge amount of electrodes for their own consumption. Again, most of it is non-UHP.

Sonali Salgaokar:

Sir, my second question is regarding the pricing of electrodes. If you could help us with the approximate quantum of price increase that we have seen in Q1 FY22?

Manish Gulati:

I would say it was somewhere between if you ask a specific number, between 15% to 20% is what we have seen between Q4 and Q1.



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- Sonali Salgaokar:** Going forward, we are optimistic about the outlook for this because of the demand centers opening up, right?
- Manish Gulati:** Yes.
- Sonali Salgaokar:** Thirdly, on the needle coke, we mentioned that we have liquidated the majority of our higher cost needle coke inventory in Q1. So, going forward, should we expect to get the benefit of the lower cost inventory?
- Manish Gulati:** Yes, that's right. That will be helpful in improving the margins.
- Sonali Salgaokar:** But is needle coke growing in tandem with the electrodes – the pricing?
- Manish Gulati:** There are enough electrode prices to protect the margins, but yes, they are also growing quarter by quarter. As the electrode prices improve quarter by quarter, the needle coke prices are also increasing quarter by quarter, but since we are out of that high-cost issue which we were carrying for the last 6 quarters, now at least we should have a decent operating margins covering after considering the hike in needle coke prices.
- Sonali Salgaokar:** What is our capacity utilization in Q1 FY22?
- Manish Gulati:** Now, more than 85%.
- Sonali Salgaokar:** Even right now as we are speaking July and August, sir, is it still sustaining at 85% plus level?
- Manish Gulati:** Yes, it still continues to be more than 85%.
- Sonali Salgaokar:** Lastly, our other non-operating income has declined materially on a YoY basis, almost half year on year. Sir, how should we look at it and should we expect that to normalize over the coming quarters?
- Gulshan Kumar Sakhuja:** Sonali, if you see this Other Income on quarter-on-quarter basis, it is coming to 22 crores as against 25 crores in the last quarter. This is on account of change in the market scenario, the interest rates are going down and vis-a-vis the income from the investment that we have been maintaining that is also getting reduced over a period of time. Also, if you see that from 25 to 22 crores, the reduction is on account of lower rate of interest on our treasury. This is on account of that reason.
- Ravi Jhunjhunwala:** Secondly, Sonali you have to keep in mind this 1200 crores expansion that we are doing, it's all from internal accruals. Obviously, as it comes to a close, we keep reducing the treasury.



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- Sonali Salgaokar:** A last question from my side. Sir, you gave an update on the timelines of the CapEx. Any change in the expected outlay in FY22? I guess you had mentioned that of the Rs. 12 billion, about 5 to 6 billion outlay in FY22 and the rest in FY23 and 24. Are we maintaining this?
- Ravi Jhunjunwala:** Yes, there is no change in the outlay.
- Moderator:** The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Sir, firstly can you repeat the China production number month on month which you articulated in your opening remarks for the month of June and July – the steel production number?
- Ravi Jhunjunwala:** We got this data only this morning which suggests a drop of about 8% steel production compared to June. This figure is for July. 8% below in July compared to June.
- Saket Kapoor:** Month on month 8% reduction?
- Ravi Jhunjunwala:** Yes. If you have been tracking, they imposed certain restrictions which commenced from 1st of July. They removed the 13% VAT on export of steel. So, obviously to that extent, the exports of steel must have come down. Secondly, they are also contemplating very seriously putting up an export duty. So, going forward, we think that to the extent that their exports will come down substantially, there will be some correction in their own production also. Again, to remind you every drop of export of steel from China to the rest of the world helps our industry tremendously because 47% of that steel is produced through the electric arc furnace in the rest of the world.
- Saket Kapoor:** Sir, if we take the entire China volume, what percentage is through the EAF route and how much is from the blast furnace?
- Ravi Jhunjunwala:** China in 2016 was only 5% against the world's 47. And that is where they started focusing so much on the carbon emissions. I am just taking it out of the context, but it is a published data, so nothing to hide there. The blast furnace steel industry constitutes the single largest industry polluter in China. That one particular sector of blast furnace constitutes as much as 18% of industrial pollution in China. So, if one particular industry is as much as 18% of pollution and the numbers in China are let us say 10 times of India or the whole world on one side and China on one side at least on the steel. That created a lot of a hue and cry in China about the pollution and that is where they took some very drastic steps by closing down about 150 million tonnes of blast furnaces in 2017-18. And with the result, their exports practically came down to half from about 120 million tonnes to 55-60 million tonnes. As I said just now, any drop of Chinese steel outside of China helps the other parts of the world to produce more steel and they produced close to 50% through electric arc furnaces. That is how the electrode demand shot up 2-3 years ago and this is what we are seeing right now because now China is going 1 step ahead and they have



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removed the VAT refund of 13%. On top of that, there is a likelihood of putting up an export duty.

Saket Kapoor: Current mix is 50% from EAF route and 50% from the blast furnace with the reduction in the blast furnace capacity. This is what we can?

Ravi Jhunjhunwala: The 47%, I am talking about the rest of the world, not China. China even today is only 12% to 13% which is likely to go to 25% by 2025.

Saket Kapoor: The current demand is from the European steel manufacturers. There, I think the EAF route has the highest percentage.

Ravi Jhunjhunwala: All the rest of the world minus China produces 47%. The US is about 70% to 75%, the EU is about 40% to 45%, and the whole world is about 47%.

Saket Kapoor: Sir, this carbon emission part of the story, there is also some carbon tax that has been inculcated in the steel trade in the European nations. All these are the positive factors for the EAF route to gain traction.

Ravi Jhunjhunwala: Absolutely, and these carbon taxes are now coming in vogue and they will be getting more and more expensive by the day.

Saket Kapoor: These taxes are pertaining to the steel manufacturers that are coming up with blast furnaces only or for the EAF route also there are some percentage?

Ravi Jhunjhunwala: Every industry has some pollution issue. We are only comparing blast furnace vs electric arc furnace. It is a stated fact that for each tonne of steel that you produce through the blast furnace, you are polluting the atmosphere by about 4 times. The same tonne of steel through electric arc furnace, let us say if it is 1, the blast furnace is about 4.

Saket Kapoor: Sir, coming to our story now, our export-domestic mix is, 65% is exports and 35% is domestic. In domestic, I think Tata BSL and Essar Steel are the only 2 main buyers of our electrodes or other players also?

Ravi Jhunjhunwala: In addition to these two, you forgot the 3 Jindals – JSW, JSPL, and JSL.

Saket Kapoor: JSL from the stainless-steel part of the purpose. Is the requirement in steel manufacturing through the scrap route which JSL (Jindal Stainless) is doing, how does the requirement differ from to go for carbon steel and stainless steel per tonne requirement?



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Manish Gulati: Stainless steel is about 1 million tonne production and we are talking about the India total production of more than 100 million tonnes. So, stainless steel is a niche product, but the main demand of steel is from the carbon steel which is used for construction and also then again automobiles. Stainless steel is a very small portion even worldwide. I can tell you the worldwide capacity of total stainless-steel making is about 50 million tonnes and 1 million tonne is in India which is the Jindal Stainless and 1-2 small companies. So, the main demand for graphite electrodes and all this comes from the non-stainless steel. Stainless steel is a very small segment, just like special alloy steels are.

Saket Kapoor: What is the proportion required for in their steel making process?

Manish Gulati: In their steel making process, they have to use stainless scrap while the others use a variety of the DRI, the normal carbon scrap, etc.

Saket Kapoor: I am talking about our electrode consumption in proportionate to stainless steel and the carbon steel. If you could give me the percentage?

Manish Gulati: Sure, I can provide that. Let us say about 10% of our electrode business would come from the stainless steel. We have some customers like Jindal Stainless in India and we have a couple of customers – 1 in Spain, 1 in US. We are catering to the stainless-steel segment, but let us say, out of our total volumes if I make a rough estimate, it would be 10% or less than 10%.

Saket Kapoor: Sir I was coming to the raw material basket. If you take this, our raw material basket what percentage goes to the needle coke? And if you could give the current environment for needle coke production and new capacities that are in the anvil and the geographies they are expecting?

Manish Gulati: If you look at the main needle coke suppliers in the world Philip 66, Mitsubishi, Sumitomo, there is no increase on their side. What is happening is, wherever you are listening about these increases in China, the coal tar based and not the petroleum based. So, we have not seen any capacity expansions coming from the main needle coke suppliers, but the coal tar-based pitch plants – coke plants – coming up in China. And that is to support their own electrode industry because where are they going to get the coke from? Eventually, the petroleum-based needle coke is limited, both by supply and by technology, and so the next best substitute, not exactly a substitute but a poorer substitute is coal tar-based pitch needle coke.

Saket Kapoor: Sir, I didn't get the last point.

Manish Gulati: I was saying that the main producers, the names I said, we have not heard from them doing any capacity additions but whatever capacity of the needle coke which you listen is coming from China and I should specify that all the plants which are coming up in China barring the 3 companies, most of them are coal tar-based pitch needle coke. It's not petroleum-based needle



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coke which you can use for the large diameter UHP electrodes. What I am saying is the capacity additions in needle pitch coke which is happening in China is to cater to their own increasing demand for electrodes. It's like captive, they will be using those pitch cokes for making graphite electrodes in China.

Saket Kapoor: Sir, with our expanded capacity – 23,000 tonnes which will come up next financial year, how is our raw material requirement going to get secured and what is the ratio to create 1 tonne of electrodes, how much of needle coke is required?

Manish Gulati: That is one on one you can just assume because.... There are other things also which go into it, but eventually if you take the raw material to the last finished product, the relationship is one on one. One tonne of needle coke makes 1 tonne of electrodes. That is the thumb rule.

Saket Kapoor: Sir, for the expanded capacity, we will be securing that?

Manish Gulati: We will have to secure. Otherwise, how are we going to make electrodes? It is a global marketplace. It is the same with every company. The way they will source it, the same way we will source it. And we are going to be 50 years in the business. So, we have ongoing relationship with all the needle coke suppliers in the world. We don't see any problem just with everybody.

Moderator: We will take the next question from the line of Arvind Monie from Wellington Management. Please go ahead.

Arvind Monie: I read an FT article that talked about the announced capacity expansion in China and there have been 18 blast furnace capacity announcements while there have been 43 coal fire power plants. That coal fire power plant capacity amounts to 35 million tonnes. So, when you think about let us say 2025 and growing capacity to let us say 20% to 25% of the EAF, how do you see these shorter-term kind of data points and how would you interpret them?

Manish Gulati: The long-term trend is very very clearly towards electric arc furnaces because blast furnaces are such a big polluter. 18% of the pollution in China is coming only from the steel industry. So, they have to control it. I am sure if you have seen this news that China is trying to make only as much steel in 2021 as they have made in the last year and they have made a proportion that 1.5 million tonnes should close to have 1 million tonne of new capacity. These kind of data points which you are mentioning that you've heard that some new blast furnaces have come up are actually.... I would call them an aberration because the way China works, the way they still.... For years and years, they could have gradually gravitated towards electric arc furnace, but they are now slowly doing it and every year they sound more and more serious about it because this is becoming a problem for them. So, this year they will say there have put a clampdown on production that 2021 production should be equal to 2020, but if you see the first 7 months – January to July – they have grown by 8% which clearly means that in the next 4 months, they



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have to actually clampdown and bring it down and July was the first month when actually they were 8% down., I can tell you that the July output actually they forced to be down by 8% versus June on production controls.

Moderator: The next question is from the line of Vishal Chandak from DAM Capital. Please go ahead.

Vishal Chandak: Sir, my question is with respect to availability of scrap for electric arc furnaces given the change in rules regarding scrap procurement in China that have been relaxed. So, a lot of scrap is getting diverted to China. Do you see that as a threat to the long-term sourcing of scrap for electric arc furnaces in the western world?

Manish Gulati: Right now, all these steps are actually positive. Why they have done away with the duty on import of scrap, etc., is just to support the electric arc furnace industry there. But if you look at their statistics, their own scrap generation is now going to reach a level of 300 million metric tons and that will be at 2025. That is the time they are trying to make their year production also at 20%. So, it's actually a positive. Electric arc furnaces are that way depending upon country to country and depending upon availability of scrap, electric arc furnaces have the capability to use direct reduced iron which is DRI and still electric arc furnaces are still much less polluting than the blast furnaces. The balancing of scrap versus the electric arc furnace steel production will happen in only this way. Right now, China is trying to promote electric arc furnaces. So, they abolished the duties on scrap because they want more scrap to come in, but that will not choke the rest of the world on scrap because their own scrap generation is rising rapidly year after year.

Ravi Jhunjhunwala: Vishal, there are a lots of studies and it doesn't sound normal to somebody like people like us living in India but there are studies which say that it takes about 50 years for a country to grow to a stage where they start pulling down their buildings. They are saying that early '80s was the time when China really started to become industrious and that the new Beijing, the new Guangzhou, and the new Shanghai got built. It takes about 40 to 50 years before you start pulling down all those buildings because they are no more considered to be safe. That is how, 2025-2030 year comes in that by that time, they will have a totally new Beijing, they will have a totally new Shanghai, all the new buildings everything that you have been seeing in the last 20 years will be pulled down and there will be a totally new Shanghai. This is what happened in New York and Washington and all these large countries in the world.

But again, DRI is a substitute. Until the time you don't have enough scrap, you depend upon the DRI.

Vishal Chandak: So, what this essentially can also mean is that once you see a huge influx of scrap, the Chinese government would be planning to set up larger electric arc furnaces compared to those half a million, quarter million arc furnaces that they are setting up right now?



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- Ravi Jhunjunwala:** No, they are already putting in 2-3 million tonne electric arc furnaces just like what you have in US and Europe and India.
- Moderator:** The next question is from the line of Navin Agrawal from SKP Securities. Please go ahead.
- Navin B. Agrawal:** A couple of questions. The proportion of needle coke that is used for graphite electrodes and lithium-ion... because the needle coke to GE ratio has been between 2 to 2.25:1. Can this expand for lithium-ion batteries and GEs?
- Ravi Jhunjunwala:** No, I will give you both the answers. The coke that goes to lithium-ion is not the same coke which goes to the graphite industry. So, the companies who are making needle coke in the world – the 4-5 companies – for them, these are 2 different products produced at 2 different places. And you said the ratio is 2.25. What was that?
- Navin B. Agrawal:** Sorry, I didn't get that. The ratio for needle coke to GE is?
- Ravi Jhunjunwala:** It is 1:1, as Manish just said. You need 1 tonne of coke to produce 1 tonne of electrodes.
- Navin B. Agrawal:** If you can give us some idea on the pricing for the next couple of quarters for graphite electrodes? I know this is something that we normally don't open up.
- Ravi Jhunjunwala:** We can't give the numbers, but all we can say is that the previous quarter prices were about 15% to 20% higher and the current quarter's are also higher – let us say more or less in the same proportion.
- Moderator:** The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Sir, I was speaking about this raw material basket. If you could give the breakup between needle coke and other components which constitute the raw material basket for us?
- Ravi Jhunjunwala:** Needle coke by far is the largest and the second largest cost is electrical power.
- Saket Kapoor:** But that is getting in the power and fuel or in the cost of material consumed?
- Gulshan Kumar Sakhuja:** Yes, it is a part of power and fuel.
- Saket Kapoor:** So, power and fuel goes into and the cost of material consumed 160 is majorly contributed by the needle coke only?
- Gulshan Kumar Sakhuja:** It's other raw material also, not only needle coke.



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- Ravi Jhunjunwala:** Majority is needle coke. That's what he is saying.
- Saket Kapoor:** What has been the price trend, sir? As you have seen the 15% to 20% increase in the prices of electrodes, how have the prices of needle coke behaved?
- Ravi Jhunjunwala:** These 2 things go hand in hand. More or less, you will see the same kind of. When the electrode prices go up, the needle coke prices also go up more or less in that same region. But of course, the 2 bases are very different. The base level prices are very different when you start from there.
- Saket Kapoor:** As per our order booking, we are back-to-back securing the needle coke requirement. This spread will be maintained going forward for the coming quarter also?
- Ravi Jhunjunwala:** Yes, coming quarter and the next couple of quarters, yes. But it is a very difficult question to answer because you can never match the two. You can imagine, we are importing all the raw materials. You are not importing something today which you are going to deliver in September or August. What we are buying today will be received, produced, and delivered in October-November-December. So, it is very difficult to match the two. The prices of coke today which can be X but once we receive it from UK, Japan, and US and produce electrodes and send it back to US, Europe, and Japan, it is a matter of 4-5 months. So, obviously there is a time lag between them. So, everybody is taking a risk of that time. But yes, to the extent possible, you want to match.
- Saket Kapoor:** Sir, we have also seen for this quarter, the employee cost also going up, although on a base of 15 crores to now 18 crores. What should be the annual trends for it?
- Manish Gulati:** We did a wage settlement due to which you have seen some increase because majority of the wage settlement with workers who were in the first year. That is one this thing. And we have made provisions also for CMD commissions, etc., and this year we gave increment also. Last year, we did not give any increment because the company was not doing good, but still if you look at our last 5-6 years' data, it is going to be one of the lowest numbers still this year in 21-22.
- Saket Kapoor:** Sir, out of this breakup of investment of 1507 crores, what portion is attributed towards Bhilwara Energy? And any update with the change in policy towards the hydroelectricity generation or any change in the stance of the government where we can look for divesting this stake or any update you would like to share?
- Gulshan Kumar Sakhuja:** One thing I would like to tell over here is that 1500 crores does not include that investment of 300 crores that we had with the Bhilwara Energy. This 1500 crores of investments corresponds to the investments that we have invested in different papers in the debt market. And it does not include the investment of 300 crores in Bhilwara Energy.



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- Saket Kapoor:** Sir, any update on the same – of monetizing that? Or any change in the policy that we are expecting going forward? Anything material on it, sir? And how has been the performance of the power plant there?
- Ravi Jhunjunwala:** At the current moment, we are not even thinking about that. It is a great investment; it is a great sector to be in when the coal prices will keep going up and when the power prices keep going up. Hydro, as you know, once you have repaid your debt, your cost of production is very very marginal. So, it's a great investment to be in hydro.
- Saket Kapoor:** Sir, currently what is our ownership in the company?
- Gulshan Kumar Sakhuja:** 49%.
- Saket Kapoor:** And the remaining is being held by?
- Om Prakash Ajmera:** The remaining is held by 5% by IFC World Bank and rest of the equity is bought by promoters of other companies.
- Saket Kapoor:** One hypothetical question, sir. What it actually takes up to set up this needle coke facility? We have been in this business for such a long time, what it takes to be integrated in that form to set up needle coke – the type of investment and the raw material input for the same if you could delve on it? That's my last question.
- Ravi Jhunjunwala:** The main thing what it takes is the technology. And there are only 3-4 players in the world and the world has not seen any additional player in the last 40-50 years. It's exactly like graphite, it doesn't take.... Anybody can put \$1 billion or \$2 billion investment and put up a graphite plant, but the issue is not about the money, the issue is about the availability of technology. HEG was absolutely the last new entrant in the graphite business. Exactly 45 years ago, we came into this business in 1976. It's exactly the same story. The technology is very scarce and it is in the hands of only 3-4 companies, and it's not easy to copy that technology.
- Saket Kapoor:** But does it make any kind of synergy because for you when you are expanding capacity and when the world is moving towards EAF route to have some short of capacity than in the country with the existing players so that a win-win situation can be established between the producer and the consumer? Can something in that line be contemplated with the change of stance in the steel production because of this carbon emission cropping up all across the globe?
- Ravi Jhunjunwala:** As I said, everybody will be very-very keen to do that. Every graphite company would be very keen to have backward integration, but the question is where do you get the know-how from?



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Saket Kapoor: I am talking about collaborating with the existing players. Has anything carved out that it will improve our matrix going forward and would be also a win-win situation for the producer?

Ravi Jhunjunwala: None of the 3-4 companies in the world are prepared to even talk about it. That's what I am saying. It's like graphite business. We are not interested to give this know-how to anybody else. It's exactly the same story.

Moderator: The next question is from the line of Arvind Monie from Wellington Management. Please go ahead.

Arvind Monie: Based on commentary from other companies exporting from India and other markets, shipping seems to be a very big challenge in terms of availability as well as high freight rates. How are you dealing with that and has it kind of impacted your business or is there a chance of any impact going forward which may be tighter capacity continuing?

Ravi Jhunjunwala: We continue to face this shortage of containers and the whole world is grappling with it, and it is definitely hurting the export community. To us, at least the value of goods is much higher than the freight we pay, but for lower value of goods, it is catastrophic what is happening. The freights to some of the sectors, mainly I would say the US, Canada, Mexico, and Europe from India, they have increased manifold like they have gone 2x, 3x, and there is no stopping where they are going. The rates from India to Southeast Asian countries and the Middle East are still subdued. It is a 10% to 15% increase quarter on quarter. We are struggling with this and we are talking to shipping lines and they say this situation will last at least until the end of the year because the trade routes have become completely skewed. Containers are available between China and US, and for the rest of the world is struggling to get them. It was at coupling of the COVID and the pent-up demand after COVID and the trade gets skewed and also mergers of some major shipping lines have also contributed to this. But this is not a normal situation as the shipping lines say. We will have to bear with this 1 or 2 more quarters and they will start to cool down. That's what we think. But today, yes, it's a huge issue arranging containers even.

Arvind Monie: Do you bill your customers on a FOB or CIF basis?

Ravi Jhunjunwala: The customers have to be given FOB just like HEG buys all the raw material and we calculate what we get on our factory door. So, if we are supplying to the US, I have to go by the market because we have our internal suppliers sitting there. If I, let us say, add \$200 or \$300 freight cost on to them, I will immediately lose. Then, in Europe, they have so many graphite plants. So, these costs everything up or down is on us. This advantage is also on us in exports. For the consumer, it is the landed price at their factory.

Arvind Monie: Inventory levels at this point in time in let us say June-July-August you find are reasonably of end product?



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- Ravi Jhunjunwala:** At our works or in the supply chain or with customers?
- Arvind Monie:** No, at your company.
- Ravi Jhunjunwala:** At the record low levels of inventory in less than a month. The electrodes are just getting made and getting shipped.
- Moderator:** The next question is from the line of Navin Agrawal from SKP Securities. Please go ahead.
- Navin B. Agrawal:** Apologies Raviji for not being clear with my last question. The question was on cost price basis. Currently, the needle coke to graphite electrode ratio is about 2.5:1. Going forward, can we expect this to expand or contract?
- Manish Gulati:** This 2.5:1, do you mean like needle coke being 30% of our product cost or 35% of our product cost, is that what you mean you are dividing that 2.5:1?
- Navin B. Agrawal:** Yes.
- Manish Gulati:** This is the space that is historically this way that needle coke comprises 30% to 35% of the product cost barring these market ups and downs which come in between sometime like we saw in the last 6 quarters. That is when the balance changes. Otherwise, it stays in a stable market 30% to 35% is our needle coke cost.
- Navin B. Agrawal:** So, only if there is a deviation, it would be in the short term; otherwise, more, or less it would continue to be in this band?
- Manish Gulati:** Yes. So, it's needle coke and then the power and then the other things.
- Moderator:** Ladies and gentlemen, thank you very much. That was the last question in the queue. As there are no further questions, I would now like to hand the conference over to Mr. Jhunjunwala for his closing remarks. Over to you, sir.
- Ravi Jhunjunwala:** Thank you everyone for your serious interest in pursuing with us every quarter and I hope to meet you and to come out with some better results compared to what you are seeing right now and look forward to seeing you again.
- Moderator:** On behalf of SKP Securities, that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.