



“HEG Limited
Q3 FY22 Results Conference Call”

February 15, 2022



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Moderator:

Ladies and gentlemen, good day, and welcome to HEG Limited Q3 FY '22 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 “0” on your touchtone phone. Please note that this conference is being recorded.

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

Naveen Agarwal:

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, 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 Q3, '21- '22 con call. In line with the first two quarters, our third quarter performance continued to be strong, supported by improving worldwide steel market conditions, consequently resulting into strong electro demand. According to the WSA the world steel association data, global crude steel production for the calendar year showed a 3.7% increase over 2020. But what is more important and positive for us is that the steel production excluding China increased by a whopping 13.1%, while China reduced by 3%. This gives us a double impetus to the graphite electrode industry. While the world outside of China produces about 47% of its steel through electric arc furnaces, resulting into higher electrode demand and a reduced growth of steel in China obviously reduces steel exports from there to rest of the world.

Friends, as steel decarbonisation gathers speed all around the world. Many projects were converting existing blast furnaces into electric arc furnaces. Along with some new Green Field capacities have been announced in very recent past across the world, mainly in countries like the U.S., Canada and Europe. American steel companies alone have announced a new capacity of electric arc furnaces, to the tune of 20 million tonnes, all of these are likely to be in production between 2023 and 2025.



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Similarly, European steel industry has also announced replacing their existing blast furnaces to electric arc furnaces, to the tune of 16 million tonnes, of which about 12 million tonnes is from ArcelorMittal alone. They should also start going into operation from 2025 onwards. This kind of a 36 million tonnes of additional EAF capacity, which is now going to go into operation straight away in the next couple of years ending in 2027 - '28. We haven't seen this kind of new capacities of electric arc furnaces being created anytime in the past. This will have a significant impact on demand of electrodes of about 50,000 tonnes per annum. Most of these would be large electric arc furnaces, using ultra high power electrodes for which we are fully equipped.

In China, the government's efforts to replace polluting steel capacities continue and they are on track to reach 20% production of steel through EAF in the next three to four years. They've already doubled the share of electric arc furnace from about 6% in 2016, to 12% in 2020. And they keep building new electric arc furnaces to reach their capacity of 2,000 – of about 20%. Indian crude steel production increased last year by a significant 17.8%, highest growth anywhere in the world. The Indian steel industry is in good shape, supported by strong demand from domestic as well as export consumption. Following us, United States, the world's top user of graphite electrodes also saw a significant increase of more or less the same size as of India around 17% to 18%. And after India, U.S. happens to be our second largest market for electrodes. The electrode prices for both UHP and non-UHP grade improved in Q3 versus Q2. And we'll see this trend continuing in the next quarter -- in the current quarter, as well as the renaming remaining two three quarters of current for calendar year. And we expect the prices to remain fairly strong during the entire 2022. We continue to work at 90% capacity utilization since past three quarters.

Needle coke are also rising in line with electrode prices, were still contracting for orders quarter-on-quarter, as needle coke prices are also being negotiated quarter-on-quarter. We are bolstered by the new EAF capacities announced EAF long-term growth. So our announced expansion of capacity from 80,000 tonnes to 100,000 tonnes seems very timely. As I said, with around 30 million to 40 million tons of new electric arc furnaces on the annual in the next few years, and with no new capacity of electrode announced by any other company then then us, we don't foresee any problem in finding market for the additional 20,000 tonnes from next calendar year.

Again friends at the cost of repeating, carbon emission through every ton of steel to the produce through electric arc furnace is 1/4



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of the same steel produced to blast furnace. So as the carbon emission and the carbon credit gathers steam, it augurs well, as far as the graphite industry is concerned. Our expansion continues at full swing, and we expect to complete it by the end of 2022. And be ready for commercial production in early 2023. This will increase our capacity under one roof to 100,000 tonnes, which is about 30% to 35% larger than the second next largest plant in the Western world.

In '22 to '23, we expect our sales to be higher by about 5,000 to 6,000 tonnes versus current year. Part of which would be some technology innovations achieved by our technical team from the existing facilities. And part of that -- and part of that will also be from the new expanded facility, which would start production from early 2023. So overall speaking, we hold a fairly positive workload for our industry as a whole and even more for HEG with our timely expansion.

On this note, I'd like to pass on the floor to our CFO Gulshan, who will walk us through the financial numbers, and then between me, our Executive Director Manish, and our CFO Gulshan we will be very happy to answer all your questions. Over to Gulshan.

Gulshan Kumar Sakhuja: Thank you, sir. Good afternoon friends. I will now briefly take you through the company's operating and financial performance for the quarter ended 31st December 2021. For the quarter ended December 2021, HEG recorded revenue from operations of INR 598 crore as against INR 518 crore in the previous quarter and INR 320 crores in the corresponding quarter of the last financial year. Revenue for the quarter saw an increase of 15% on Q-on-Q basis, while it witnessed an increase of 87% compared to the corresponding quarter of the last financial year. The multi-dimensional growth in volume and price have led to the growth in revenue from operations. During the quarter ended 31st December 2021, the company has delivered EBITDA including other income of INR 171 crore in the quarter as against INR 167 crore in the previous quarter and INR 24 crore in the corresponding quarter of the previous financial year.

The EBITDA in the quarter ended 31st December 2021 was slightly pulled down due to the higher expenses pertaining to power and fuel on account of increasing LNG prices and settlement of one old power case, increase in consumption of stores & spares and higher logistic cost which has been included under the head - other expenses. Further, in accordance with the provisions laid down under Section 135, during the quarter ended 31st December 2021,



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the company has incurred expenditure on account of CSR amounting to INR 5.4 crore during the quarter in comparison to INR 0.08 Crore during the quarter ended 30th September 2021, which has been included under the other expenses.

Further during the quarter ended 30th September 2021. The rates and other guidelines have been notified under the remission and duties and taxes on exported products that is called RoDTEP scheme, by notification dated 17th of August 2021. Accordingly, the company has accrued the benefits amounting to INR 4.85 crores during the quarter ended 30th September 2021, under the aforesaid scheme on the eligible export sales for the period from Jan 1st 2021 to September 30th 2021, out of which INR3.24 crore pertains to the eligible export sales for the period from Jan 1, 2021 to June 30, 2021.

The company recorded a net profit after tax of INR 108 crore in the quarter as against INR 113 crore in the previous quarter and INR 5 crore in the corresponding quarter of the previous financial year. The company is a long-term debt free and has a treasury size of nearly about INR 1,470 crore as on 31st December 2021, yielding an average return of approximately 5%.

We would now like to address any questions or queries you have in your mind. Thank you. Now, over to Naveen. Hello?

Moderator:

Thank you very much. We'll begin the question and answer session. Anyone who wishes to ask a question may press “*” and “1” on their touchtone telephone. If you wish to remove yourself from the question queue, you may press “*” and “2”. Participants are requested to use handsets while asking a question. I request to all the participants please restrict to two questions per participants. If time permits, please come back in the question queue for a follow up question.

Ladies and gentlemen, we will wait for a moment while the question queue assembles. Participants you may press “*” and “1” to ask the question. Anyone who wishes to ask a question may press “*” and “1”. Ladies and gentlemen, you may press “*” and “1” to ask the question.

The first question is from the line of Anand Padmanabhan from PGIM India Mutual Fund. Please go ahead.



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Anand Padmanabhan: So recently there was some news about the Chinese Government postponing the carbon emission norms for Chinese steel industries from 2025 to 2030. As a result of this transaction, -- how do you see the impact of the same?

Ravi Jhunjunwala: Manish would you like to answer that?

Manish Gulati: Yeah, there's some rumors and this talk about China postponing that. But as late as yesterday, I have read the news, which is coming out of China, they're very much on this part of converting their BoF to EFs. So I really don't think there is a change in stance -- in China's stance, they might slow down the speed of gear upon speed, but you have seen them coming from 6% to 12%, and what they're saying 20% another 3-4 years, maybe it gets extended by a year, but there is no reversal as such, not that anything we have heard of.

Anand Padmanabhan: And how are you secretly pricing the -- of this price for outright ports.

Ravi Jhunjunwala: See as an industry we are working and not only us. If you look at our peer group, which comprises the world majors of the western producers, all of us are working today at the rate of 90%. And we are able to see growth in demand. So pricing continues to be strong, like between Q3 to Q2, there was possibly -- there was increase of 8% or 10%. And again, that 8% or 10% is again there between Q4 and Q3. That's another point that needle coke also continues to rise, but otherwise, the pricing continues to be strong. You must have seen the results presented by our peers, and during the course of 2022, they're likely to remain strong. That's what we think.

Anand Padmanabhan: And how should we look at the overall margins per se, because in one of your event you have commented that the margins will remain in the current range. So...

Ravi Jhunjunwala: The closest word which can describe this is similar. Similar margins because needle coke is also rising quarter-by-quarter, if electrode prices are rising quarter by quarter then needle coke rising and some other inputs are also rising.

Anand Padmanabhan: Is there any issues with availability of inputs per se.

Ravi Jhunjunwala: Sorry?

Anand Padmanabhan: Is there any issues or in the availability of inputs or it satisfies are able to get going, is there issue only with the pricing of the needle coke or even availability?



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Ravi Jhunjunwala: Yeah, yeah. It's only question of the pricing. There is no problem of availability as such. We have enough, if not more than enough, we have enough.

Anand Padmanabhan: Okay, I will get back into the queue.

Moderator: Thank you. The next question is from the line of Dhaval Doshi from Pinpoint Asset Management. Please go ahead.

Dhaval Doshi: Hello sir, I would just want to understand the overall supply situation in the developed markets especially in the Europe and the U.S. given the rising cost of electricity out over there, are we seeing any supply closures happening in the electrodes segment and that could in effect have a positive impact on the graphite electrode pricing. Or secondly, if the closures are not happening, but there will be significant cost pressures on account of electricity. So, that should further inch up the electrode prices is the understanding correct?

Ravi Jhunjunwala: Partly yes, but see as far as our consumption consumer sector is concerned for them pricing of electricity as important as it is for graphite. So, it both of them go hand in hand. But more important is that, as we just said in US out of the 20 million tonnes new Greenfield capacities which are coming in the next two to three years, the very first capacity is going to be available, as early as next year -- early next year. So, you can imagine a 20 million tons increase and all into electric arc furnace, only in the next two- three years that itself adds at least 30,000 - 35,000 tons of demand for our products.

Dhaval Doshi: I'm not denying this point, Sir. I very well taken your long term demand argument what I was just trying to understand is in the short to medium term, as in while the overall electricity price scenario in Europe is going from bad to worse, are we seeing any supply squeeze happening in the graphite electrode market or we are not yet seen that thing?

Ravi Jhunjunwala: No, we haven't seen that and as I said cost of power for our graphite industry and for steel industry, power remains one of the large cost elements. So, if something happens to -- if there's a reduction in the electrode production due to cost pressures because of power, it will be more or less offset by some little less production of steel. So, they are both complementary to each other and at the end of the day, power is still not as significant a cost for electrical arc producer, as the scrap prices are.



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Dhaval Doshi: No that I understand but power is still definitely decent cost contributed for electrode manufacturer.

Ravi Jhunjunwala: Yeah that you're right of course. But then as I said, it goes hand in hand if it becomes unviable for the steel company. It becomes unviable graphite industry. Both will go up or go down at the same time.

Dhaval Doshi: Sir but is it fair to assume that the players operating in Europe and US are seeing a significant squeeze on margins, which probably can come to some benefit as far as we are concerned?

Ravi Jhunjunwala: Manish I mean, would you like to answer that?

Manish Gulati: Yeah.

Ravi Jhunjunwala: How do we compare in our margins compared to American and Japanese producers?

Manish Gulati: In Europe, certainly they have pressure on this price of electricity. In U.S it is not. So Europe, I'm sure our peer group there is facing more cost pressures, which they have to, I mean they have to try and pass it on to the customer by way of increasing prices. But the one point which you have asked that is there any supply closure or something? No. It is not to that level, as long as the cost can be passed on but certainly they -- they must be facing cost pressures on account of the surge in electricity prices in Europe. But it has not translated to reduction of production of our peers, who are operating there.

Dhaval Doshi: But what kind of upside pressure can it create on the electrode prices? And what I'm more interested is, let's say if I were to look at the margins for the graphite players in Europe, electrode prices minus the needle coke prices, are they trying to maintain those margins by further reducing the electrode prices, because of the power cost?

Manish Gulati: See quarter on quarter the electrode prices are increasing. And of course, they will try their best to pass on these cost to the electrode price and then to the steel industry. So far that is going on, I mean, it's not that they are they have to absorb all the additional electricity costs all to themselves and we have not seen margin reduction to that effects from European plants. The issue is when these results we cannot -- this electricity problem is happening only in Europe. So, when we see the results, we see them in total all their plans combined worldwide. But sooner or later, the European results



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should also be available. So we have too -- we can only come after we have a look at that was there in public.

Dhaval Doshi: Okay, but as of now you are saying that has not really had any major impact as far as the availability as well as the pricing is concerned.

Ravi Jhunjhunwala: Yeah.

Dhaval Doshi: Okay, thanks. Thanks a lot.

Moderator: Thank you, participants, you may press “*” and “1” to ask the question. And I request to all the participants, please restrict to two questions per participant. The next question is from line of Sonali from Jeffries India. Please go ahead.

Sonali Salgaonkar: Sir, Thank you for the opportunity. So my first question is, if you could help us understand just the quantum of price hikes that we took in Q3, if not actually just the quantum.

Ravi Jhunjhunwala: Okay. So we can say between 8% to 10%.

Sonali Salgaonkar: Right, and how much do we think will be -- we will be able to increase in the coming quarters?

Ravi Jhunjhunwala: I think should be 7% to 8%.

Sonali Salgaonkar: Understand. Sir my second question is regarding the Chinese supply. So we talked about how China is growing their EF capacities to about 12%, right now, as of 2020, could you give us an update on what is the situation with the excess electrode supply in China?

Ravi Jhunjhunwala: I will just repeat, if I understood correctly. You're talking about the electrode supply from China.

Sonali Salgaonkar: Right. I mean, do we foresee any risk that they would start or increase their exports again, which could disrupt the pricing of electrodes for ex Chinese players.

Ravi Jhunjhunwala: See they are exporting almost in excess of 300,000 tons of electrodes to 200 countries. And this is not something new. They've been doing it for a while, but the grades which they are supplying are the regular power, the high power, we do not see real competition in the segment in which we operate, we are making big size electrodes, supplying to mostly the Western world. There's a lot of demand from the lower side, there in found – small, small foundries that even regular power use, there are other applications. So -- when you look at volume terms, they continue to be at that level. But it has not



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disturbed our market because it's -- they are working in a different space and we are working in a different space, there might be slight overlap, they will call USP, some where you will hear the succeeded some may not. But I think it's still a lot of time away when we -- when lot of customers actually start banking on them by buying 30% to 40% of their requirement. So that is -- that we have not seen so far.

Sonali Salgaonkar: I understand. Sir, lastly some bookkeeping questions in this quarter, our other non-operating income is notably lower year-on-year, and our depreciation and interest expense are higher year-on-year. So how do we look at it in the coming quarter.

Ravi Jhunjhunwala: Yeah, I think Gulshan will answer this question.

Gulshan Kumar Sakhuja: Yeah, if I talk about this quarter at the other income of INR 14.7 crore versus INR 25 crore. This is on account if you see three or four years back when the company had a bumper EBITDA margin, at that time the company had invested in a long-term funds, treasury funds at a rate of 8% plus. And all these Treasury funds have been matured in the start of the financial year. So this is one of the reasons which has led to that reduction of this other income. And second, as that with our expansion from 80K to 100K is funded through internal accruals, so we need the funds on regular basis. So that's why we are means placing our treasury and funds on a short-term basis rather than going for a long-term. So both these factors resulted into the reduction of that other income and going forward it would remain in the same range.

Sonali Salgaonkar: Right. Sir and about depreciation and interest expenses it also on account of CapEx.

Gulshan Kumar Sakhuja: I'm coming to finance cost first. There was some interest subvention scheme from the RBI, of 3% till 30th September. There is no notification for further extension, and that was till 30th September. That's why if you see on quarter-on-quarter our interest cost has increased from that 1.15 cr to 4.17 cr. This is on account of withdrawal of subvention and there is no clarification from RBI, whether it will be further extended or not, that's why we have charged interest at a normal rate in our books of accounts. And the third part is of depreciation in this quarter means we have capitalized one of our furnace, that has led to the increase in depreciation.

Sonali Salgaonkar: So these cost we should expect at similar levels going forward in the coming quarter.



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Gulshan Kumar Sakhuja: In case the notification comes about interests subvention, our interest costs would come down. In case if it does not, then it would be in same range depending upon the working capital requirement. And the depreciation more or less, it would remain same for the next financial year also.

Sonali Salgaonkar: Understand, Sir, just last question of the CapEx. What is our total CapEx for this 20,000 metric tons and how much of that has been already spent? That's it for myself?

Gulshan Kumar Sakhuja: Yeah, Manish Ji.

Manish Gulati: Yeah. So total, I mean, out of this total spend until date is about INR 700 crores out of the INR 1200 crore we talked about till date.

Sonali Salgaonkar: Got it sir.

Moderator: Participants you may press star "*" and "1" to ask the question. The next question is from the line of Veeral Gandhi from Ninety One. Please go ahead.

Veeral Gandhi: Hi, yes. Question on page 12 of your presentation. And there is a minus INR 60 million crore change in inventory of finished goods work in progress and stocking trade for the quarter. INR 60.64 crore. Could you tell me what resulted in that?

Gulshan Kumar Sakhuja: Yeah, if you see the cost of material consumed plus change in inventory that has led to the raw material consumption during the quarter. That's 274 minus 60. We have to see in that way.

Veeral Gandhi: Okay. I see. Okay, brilliant. Thank you. And then the second what question was, so could see your share price has come under some pressure recently? Do you have any views on what's resulted in that move downwards in the share price from September last year?

Gulshan Kumar Sakhuja: So, as far as share price is concerned we are not that concerned with how the market behaves, how the market perceives all such things. If you see the global concerns of Russia and Ukraine that is going on, is putting pressure on the markets as well. As far as the share price is concerned, we will not comment on that. It's an industry thought.

Veeral Gandhi: Okay. Right, then the last question is, so you've built up quite a lot of net cash, given your share prices fallen, and would you be interested in doing supply back?



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Gulshan Kumar Sakhuja: Again, the questions is subject to that approval of the board and if you see the past history of our HEG, you'll see that our payout ratio always remains in the range of 30% to 35%. And we hope that we will continue with this pay out. Again, that can be subject to the approval of the Board.

Veeral Gandhi: Okay, thank you.

Moderator: Thank you. Participants you may press star “*” and “1” to ask the question. The question the next question from the line of Dewang Sanghavi from ICICI Securities. Please go ahead.

Dewang Sanghavi: Thank you for the opportunity and congratulations on good set of numbers. My first question is regarding the industry dynamics. Currently, around 25% of the steel produce is through the EF route. And with the upcoming capacities in US and Europe and China, again talking to go to 20%. Can we expect the same to go 30% to 32% in the next three, four years? Or do you perceive any headway in this regard?

Ravi Jhunjunwala: You see will have to lead to this question into two. I mean, it's very confusing to mix China and not mix China, because China until five years ago was producing only 6%. Whereas the rest of the world produce about 47% 48% through electrical arc. But because China produces more than 52% to 53% of the world steel, the total average comes down to 25% or 26%, as you correctly said. But given the given the path of decarbonisation that every country is pursuing, China announced their plan to go from 6% to 20%. It is it is huge, I mean three times more electric arc furnace production in a given period of 6,7,8 years, and they are on the path. But we let's segregate China for a minute because we are neither competing with China in India nor we are competing with China in our export markets, as Manish just explained, we are not exactly in the same segment of the market, we produce 60%, 70%, 80% of our production ultra-high power electrode, where China is not our competitor. So, it is easier to, it is easy to explain and discuss the world of steel without China which is the other part of the world minus China where electrica arc furnace for that part is increasing. As I just said, in US alone, there are there is 20 million tons of new electric Arc furnace capacities, which are already -- some of them are already on the ground constructions have begun and between now and 2025 they will add another 20 million tonnes. And in the last three months alone, Europe has followed and Europe has announced another 16 - 17 million tonnes. Their time period is slightly later, they will start conversion from '24- '25 onwards. So in total, if you see minus China, without China the world is adding another 35 million tons of



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steel in the next five, seven years. And half of it is going to be ready in the next three years alone. And as the entire world graphite industry is already operating at more or less -- more or less the entire possible capacity utilization of 90% - 92% It's very difficult to go beyond 90% - 92% in our industry. So in that backdrop, every new demand which is coming, we all of us combined are barely able to meet the full demand of the existing customers in the world minus China. So every new capacity of electric arc furnace coming, adding any more demand for graphite electrodes, so we are preparing ourselves to meet that demand. And luckily we took this decision at a very opportune time, let's say about two weeks ago. And again luckily, somehow we were able to manage and our plan which was to complete the expansion and start by October - November is not really hampered. I mean we are probably delayed by maybe a month or two, but by end of this year or early next year, latest by November - December, January. So within this year, within the next 2022 - '23 financial year, we will be producing some additional quantity in the month of February - March from the expanded capacity, to meet this additional demand. And besides that, as I just said, we have made some technological improvements in our existing plant. So, between the part of the expansion being ready before March next year, and also 3,000 to 4,000 tonnes which we think we can produce, we have already started producing that proportionately in February and March. So, we will have at least 5,000 to 6,000 tons of additional electrodes to sell between now and next March and then from March - April onwards next year the additional 20,000 tonnes. So, we are very happy that our timing of decision that we took for expansion, we were worried about a year ago because of COVID. But, with all the new announcements of electric arc furnaces and additional demand coming up, the timing is now matching with the demand for electrodes next year onwards. So, we will be able to - we don't see any problem in selling whatever we are going to produce in the next two three years.

Dewang Sanghavi: My second question is regarding the need capacity? How quickly we can get up to optimum at 80% to 90%?

Ravi Jhunjhunwala: This is a very, very difficult question to answer despite a spite of 45-50 years of experience it's not a very, very -- it's not an easy question to answer even with huge amount of experience that this company has. I mean you may just run into some problem at some stage but hopefully given the experience and given that -- we are more or less repeating whatever we have - we have not gone for something which is very, very fancy. So, we have been handling all these expansions in the last 10 years. So we are more or less repeating exactly the same thing. So unless there is a major surprise in store



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which we can't see today, we don't see much of a problem I mean don't pin me down on a number but -- I mean we should be -- it should be very easy to reach 70% 80% in the first six months itself.

Dewang Sanghavi: Right, that was helpful. My third question is regarding this one off in the power cost it was kind of an alluded in the opening comment. So what do we content for the same?

Ravi Jhunjunwala: What would be what?

Dewang Sanghavi: There was a one off in the power cost for the quarter three results, I believe.

Ravi Jhunjunwala: Yeah. Manish why don't you explain that.

Manish Gulati: That was an INR 14 Crore.

Dewang Sanghavi: Okay. INR 14 crore one off and do you expect something like that to come again or like...

Manish Gulati: No, it was an old matter some arrears with Discom which were reconciled. So it's not -- anything which will reoccur?

Dewang Sanghavi: So it is not recurring nature, that's my basic question.

Ravi Jhunjunwala: No, it is not recurring. There was a dispute between us and the SCB. We didn't think that it was the right thing for them to debate. But then at the end of the day, you don't want to fight electricity board.

Dewang Sanghavi: Absolutely. Thank you, sir and all the best.

Moderator: Thank you. I request all the participants, please restrict to two questions per participant. Participants you may press star "*" and "1" to ask the question. The next question is online of Rajesh Majumdar from B&K Securities. Please go ahead.

Rajesh Majumdar: Yeah, good afternoon sir and thanks for taking my question. So my first question is on the export composition. Consider differential energy prices across the globe. Are we seeing differential export rates in the US, EU and Japan? I think they are the three largest countries. And are you seeing a different export competition country wise, over the last two quarters and the relation thereof.

Ravi Jhunjunwala: I don't think there is any major difference between country A or country B. It's a very, very international product. And most of our competitors have production facilities in U.S. and Europe. So maybe there could be one off small countries where you can ask for higher



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price, but we haven't seen much of a differential pricing between Country A and Country B.

Rajesh Majumdar: Is it possible to break down the export composition, I'm not asking exactly country but region wise, broadly, North America, Europe, Japan at least, like that.

Ravi Jhunjunwala: Manish.

Manish Gulati: See, I would like to put it this way that if you put let's say take U.S. and Europe on one side, take Southeast Asia on another side Middle east on other side. I would say it's not more than 5% difference, not more than that. And timing of order conclusion is also important. Suppose if we have picked an order this last for three months and meaning, and in the middle the price are increasing and order which is concluded, in the third month goes very well exported that very month. So we'll see some variations, but across markets, this is a global marketplace. It's not, I mean, with this, even with this freight we have today you can virtually reach any country with your product. So it doesn't vary much provided you're established player in that market, all things remaining equal. Suppose we have a special trial price, maybe we want to get into some customer, we may offer some incentive, just to give us an opportunity. Other than that, the pricing is stable, all things remain equal. Our pricing doesn't change from market to market.

Ravi Jhunjunwala: But generally speaking, if you really, really pin me down to one country, probably America is the first one to increase the price. So that has been more or less a trend. And then rest of the country follows, the rest of the world follows.

Rajesh Majumdar: And what is our export share to the US right now? Has it changed meaningfully over the last two, three quarters or one year?

Ravi Jhunjunwala: Yeah, I mean, we have our export share in America keeps growing and keeps growing rapidly. Our exports have practically doubled in the last 12 months. We are focusing on America for a very long time, only for the simple reason that while you know, the rest of the world minus China produces about 47% - 48% of steel through electric arc furnace. In America, this number is about 70%. So America being the third largest country or fourth largest country for steel production, 70% of that steel is produced through electric arc furnace. So this is, by far the single largest consumer of electrode as a country. So we have been focusing on America for a very long time. So our -- we did a lot of trials in the last two years in new customers, keeping our expansion in mind. And most of our -- 90%



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of our trials were very, very successful. So on the back of that, our exports have actually doubled in America in the last 12 months. And they are again going up by at least 40% to 50% this year, if not double but at least 50% more than last year.

Rajesh Majumdar: And what is that out of our total exports share? Is it possible to quantify them?

Ravi Jhunjunwala: in America?

Rajesh Majumdar: Yes.

Ravi Jhunjunwala: America would be what, Manish at least 12%-15%.

Manish Gulati: Our export 10% to 20%, I would say,

Ravi Jhunjunwala: Yeah, I was saying 12% to 15%. So that will be the single largest export.

Rajesh Majumdar: And after the expansion in US?

Moderator: Apologies to interrupt you Sir, I will request you to come back in the question queue for a follow up.

Anand Padmanabhan: No, even after expansion, they will still remain the largest because that's the one country where the biggest expansions of electrical arc furnaces are happening.

Moderator: Thank you, Sir we move on to the next participant. The next question is from the line of Hemant Kumar, Individual Investor, please go ahead.

Hemant Kumar: Hi, thanks for the opportunity. I just want to know like ED business is picking up, I think it's a year back we discussed that the consultant was working on getting the new business and anode is like kind of 60% of the lithium battery and that is the business we were planning to look into it and do the right investment or sticking into the market. So what -- any plan on that.

Anand Padmanabhan: Manish?

Manish Gulati: See it is -- Hemant being a carbon and graphics company. And these being kind of related products. We just keep looking at it. But at this time as we speak. There is no plan as such, maybe it's in the future we will certainly let you know. But it's a completely different process compared to graphite electrodes. Yes, it is carbon, definitely. But the whole processing and the whole value chain is



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completely different than graphite electrodes. Of course, EVs are -- they're going to grow very fast. And from time to time we consider this field. We look at it, but right now there's no plan on the table.

Hemant Kumar: Okay. Yeah, I mean, that's the main, because scrappage policy is also been approved from the government and then we saw like, -- what I understood from the last call was like it's just a minor tweak. So the anodes will be produced from the waster product from your, whatever the manufacturer currently is happening. And with the new facilities, you're going to have the more capabilities to respond.

Ravi Jhunjunwala: Yeah, you remember correctly, there was a time when we thought that if there's anything can be done out of the existing plan, but then having gone into a lot of detail, it emerges that if you really want to make a cutting edge anode, the processing should be different right from the very beginning.

Hemant Kumar: Okay, but because a lot of new brands are coming up in India, planning to invest in India with ease. There was no like, request for artificial electrode or it's always go for the natural electrodes and anode.

Ravi Jhunjunwala: You're talking about the different materials, which can be used to make an anode, of course, it started from natural graphite, then of course, natural graphite is limited to mine the product, then it came to artificial graphite, then people thought artificial fit is also not easy to obtain, then even Mizo phase pitch, the Coulter base pitch people came in. So, the EV people are trying a lot of materials, they have substitutes, depending on the right price and the right quality parameters they can obtain. So, they have an option of two to three different types of materials.

Hemant Kumar: But there is no as such demand for you guys to like look at CDS, level and take opportunity, and start booming.

Ravi Jhunjunwala: Not from the electrode plant. I mean, we cannot diversify into anything else. I mean, it's a dedicated graphite electrode plant, but you're absolutely right. I mean, it is something of the future. And as Manish explained and as we spoke about in the last call, we are looking at a couple of such opportunities. I mean, it's not the opportune time to talk about it yet. Nothing is ready. Nothing is ready to it -- nothing is cooked up, let's say. But there are lots of things which we are looking at. And it's a matter of time that we will take some decision and let you know.



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- Hemant Kumar:** Okay. Because it's been two years and you said like, there is a professional consultant is working on and looking at opportunities, right. So that's why I was thinking.
- Ravi Jhunjhunwala:** It will come, it will come, let me assure you. Give us a some more time now.
- Hemant Kumar:** Okay. Thank you. Thank you.
- Moderator:** Thank you, Participants you may press star “*” and “1” to ask the question. The next question is from the line of Rajesh Majumdar from B&K Securities India. Please go ahead.
- Rajesh Majumdar:** Thanks for the opportunity again. My second question was actually on the expansion we have on the JV space. And I understand there's going to be some a different material than we needle coke. So it ...
- Ravi Jhunjhunwala:** It will not be different. It will -- it's the same graphite electrode.
- Rajesh Majumdar:** It's needle coke based only. So given the fact that needle coke supplies are not increasing globally, do you foresee any issues in the RM side, in terms of the new plant?
- Ravi Jhunjhunwala:** No, it will not be easy. I mean, let me say. I mean, there's no yes or no answer to this. I mean, we are pretty sure that we'll be able to manage to get this additional tonnage. It's not going to be easy. Nothing is easy, but I don't think we should be worried about not being able to run the plant at full capacity because of that. We will be able to manage, I mean, we have been buying needle coke from five, six different sources for last 40 - 45 years. Obviously, before we jumped into this discard -- jumped into this expansion. I mean, we've gone met them where we've told them our requirements and everything. So it's a matter of just 20,000 tonnes in ocean of more than half a million tonnes that they produce.
- Rajesh Majumdar:** In the long run, this is going to be a limiting factor for the industry to grow beyond the point is that correct, in terms of the GE industry, the availability of RM. So to that extent, our future plan, I'm not talking about the short term, so beyond say four or five years when our capacity is utilized fully. We'll have to think of some of the revenue stream because this this growth is likely to get saturated given the issue on the RM side.
- Ravi Jhunjhunwala:** Yeah, you may you may be right. I mean, if somebody was to invest in Greenfield, 50K, 60K, 70K tons of capacity, that will be a constraint. I mean, today, you cannot say so easily that I'm going to spend X and when you're talking about 50K 60K Tons of new



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Greenfield plant you're not talking have millions of dollar you're talking of billions of dollars of investment. So at that stage, yes, I mean, it will be it will be an issue. So that is one of the reason why you're not seeing many, we're not seeing many people talking about putting up a new plant or going for a very large expansion. And again, I mean, given the experience of electrode building capacities that we have any new free new Greenfield expansion -- any new Greenfield plant, a new plant will take minimum of four to five years to build. So when you are dealing in a space of steel industry where the fortunes can change very fast, it's not easy for any newcomer or even an existing player to talk about investing billions of dollars in a field where you're taking a view of for 4 years plus.

Rajesh Majumdar: Yeah, yeah. Okay. Thank you. Thanks for taking my question.

Moderator: Thank you very much. The next question is from line of Siddarth Mohta from Principal India Mutual Fund. Please go ahead. Siddarth we are unable to hear you, may I request you to unmute your line for your side and go ahead with the question please.

Siddarth Mohta: Hello, now its better?

Moderator: Yes, thank you.

Siddarth Mohta: Yeah. Good afternoon to you, this upcoming 20,000 Metric ton being a brown field unit which will have this latest plant and machinery and all the latest equipment. So what impact it can have on the manufacturing costs, and only roughly on frames on the EBITDA margin on this.

Ravi Jhunjhunwala: Manish will you answer?

Manish Gulati: See first of all, it's not like a brownfield plant. it's almost a greenfield plant, every shop, every process is different, we are going to be making nipples from that. So the main plant is dedicated towards electrodes, of course, it will increase our depreciation costs, but being at the same place is going to actually cause a reduction in our overhead. Because we are a 100,000 ton plant at a single location. So that way, we'll economize on the overhead costs, they will come down.

Siddarth Mohta: Okay, And Sir I know it's a bit early, but it is possible to quantify the reduction in that overhead cost and what impact it can have on the margin. Any rough is also okay sir?

Manish Gulati: See with 80 you are mixing 20 into that, so whatever expenses, will be divided in that proportion, of course, there'll be certain increase,



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because we will still need 100 more people to run that plant. But all the other overheads will get amortized over a larger tonnage, which is, let's say, 25% of what we are today.

Siddarth Mohta: And overhead cost would be what percentage of our revenue or of our cost roughly?

Manish Gulati: Gulshan and what exactly is that overhead on our revenue.

Gulshan Kumar Sakhuja: Sir, it's clear, if you go to the detailed balance sheet, you can go through and easily calculate that our percentage or fixed cost overhead cost or overhead cost to our sales revenue.

Siddarth Mohta: How much 10% to 12%?

Gulshan Kumar Sakhuja: You can calculate easily from the detailed balance sheet, how much overhead costs is proportion to that sales revenue.

Siddarth Mohta: Okay. Sir and best wishes for upcoming quarters.

Moderator: Thank you, ladies and gentlemen, we'll take the last question from the line of Raghav. Please go ahead. Raghav can you hear us.

Raghav Hans: Yeah, I can hear you. Can you guys hear me?

Ravi Jhunjhunwala: Yes, we can hear you.

Raghav Hans: Thank you for the opportunity, sir, just wanted to ask that you said that the Chinese electrodes which will be exported. So they are not really competitive with us, I just wanted to and whether, the technology for them could be upgraded in a manner in which they become competitive with us in the future in the ultra-high throughput space. Or, you know, from that, that's sort of thing. I want to understand that.

Ravi Jhunjhunwala: No, by saying that they are not competitive, it is not in competitive or non-competitive in terms of cost it is -- we're talking about the quality. So because they don't have the technology, they are not able to produce, let's say the ultra-high power electrodes, which can be acceptable to an American customer or a European customer, about 80% of the total demand of electrodes in the world is for the UHP. And that is that 80% where Chinese are not able to meet the customer's needs.

Raghav Hans: Okay.

Ravi Jhunjhunwala: It's a technological issue.



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Raghav Hans: So there is no way that they could upgrade their technology somehow because sorry, I'm new to this industry. So.

Ravi Jhunjhunwala: No, I mean, of course, if you keep trying, you will succeed one day, but you need a formal partner with 20, 30, 40 years of experience to back you up and give you the right advice. Right people, training, right equipments. It's not very easy. I mean, just because you said you are a new person. So let me just tell you, the easiest electrode that we produce takes about six to eight weeks to produce and the most difficult product that we produce takes as long as five months to produce and in these two months to five months.

Moderator: Participants please stay connected, like for Mr. Jhunjhunwala dropped. Ladies and gentlemen, thank you for your patience, we have line from Mr. Jhunjhunwala reconnected, Sr you may go ahead. Ravi, Sir can you hear us?

Ravi Jhunjhunwala: Yeah, I can. I thought the person who was asking the last question was Raghav.

Raghav Hans: Yes, basically you explained that 5 months it takes to.

Ravi Jhunjhunwala: Because you said you're new to this industry. Explain the technology part, the easiest product takes about two months to produce. And the longest product most difficult product takes about five months to produce. So between these two months and five months, there are five very different processes through which these electrodes pass through. So if you are handling a product, where it takes two months, or five months and five distinctly different processes, and by this distinctly different processes, I mean from one shop to second shop to third shop, to fourth to fifth. And there is no relation between one and two and two and three and three and five, these are very, very different processes. So if you're handling a product for as long as two to five months, there are there are various kinds of complexity. There are different technologies every day that you have to go through. So unless you have a solid company behind you as a technology partner, it's a trial and error otherwise, so that's where the Chinese are lagging. So they don't have a credible graphite company behind them.

Raghav Hans: Understood that was very helpful. Thank you.

Moderator: Thank you very much. And I'll hand the conference to Mr. Manish Gulati for closing comments.

Manish Gulati: Yeah, first of all, thank you so much for your time and attending our conference call. I would like to summarize it in this way that we



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hold a very positive outlook because of decarbonisation efforts going globally, the carbon credits and the shift from blast furnaces to electric arc furnaces, plus the new electric arc furnaces coming up. So we are in this we are helping an industry recycle steel. So we hold a very positive outlook for electrode industry as a whole. And actually with becoming 100,000 ton plant, which will be the largest plant in the Western world. I think HEG is in the right business. And this is of course, a bright future. So we look forward to speaking to you once again, with our results. Thank you so much.

Moderator:

Thank you very much. On behalf of SKP Securities Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you