



HEG/SECTT/2022

06th June, 2022

BSE Limited 25 th Floor, P J Towers Dalal Street MUMBAI - 400 001. Scrip Code : 509631	National Stock Exchange of India Limited Exchange Plaza, 5th Floor Plot No.C/1, G Block, Bandra - Kurla Complex Bandra (E), MUMBAI - 400 051. Scrip Code : HEG
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Sub: Transcript of Earnings Conference Call on Q4&FY22 of HEG Limited

Dear Sir/Madam,

Please refer to our Earnings Conference Call scheduled on 02nd June, 2022 intimated vide our letter dated 30th May, 2022. Please find enclosed the transcript of the said Earnings Conference Call.

The said transcript is also available under the Investors Section of the website of the Company i.e www.hegltd.com.

This is for your kind information and records.

Thanking you,

Yours faithfully,
For **HEG Limited**

Vivek Chaudhary
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Encl: As above

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“HEG Limited Q4 FY-22 Earnings Conference Call”

June 02, 2022



MANAGEMENT: MR. RAVI JHUNJHUNWALA – CHAIRMAN, MANAGING DIRECTOR & CEO.

MR. MANISH GULATI, EXECUTIVE DIRECTOR.

MR. GULSHAN KUMAR SAKHUJA – CFO.

MODERATOR: MR. NAVIN AGRAWAL – HEAD- INSTITUTIONAL EQUITIES, SKP SECURITIES LIMITED



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Moderator: Good day, ladies, and gentlemen, welcome to the HEG Limited Q4 and FY22 Earnings Conference Call, organized by SKP Securities Limited. 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 management opening remarks. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone 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 Agrawal: Good afternoon, ladies, and gentlemen. It’s 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 and Mr. Gulshan Kumar Sakhuja – CFO.

We will have the opening remarks from Mr. Jhunjhunwala followed by a Q&A session. Thank you and over to you Mr. Jhunjhunwala.

Ravi Jhunjhunwala: Thank you, Naveen. And good afternoon friends and welcome to Quarter Four and Full Year 21-22 Concall. This quarter’s performance was in line with the previous three quarters, showing a consistent improvement. 2021-22 Results are significantly better than the previous year driven by strong sales volumes and electrode prices. In terms of volumes, this year has shown a record production as well as sales.

A rapid increase in industrial activity is all over the world contributed to higher-than-expected demand for steel and steel products all over the world and consequently demand for our products also increased.

In calendar year 2021, excluding China, the top 10 steel producing countries increased their steel production by a whopping 13% over previous year 2020. Large steel producing countries like US, Japan, Germany increased their steel production by as high as 18.3%, 14.9% and 12.3%. These kinds of increase, we’ve not seen in a long time.

In order to control carbon emissions, you will remember, China had gone on a spree of closing down around 125, 150 million tonnes of its highly polluting blast furnace-based steel capacities in 2015, 16 and 17, which led to their steel exports declining to a whopping levels of about 115 million tonnes between 2016 – 2017 to about 55 million tonnes in 2020. It’s close to half of what they used to export earlier. This reduced trend of steel exports out of China continues and their Steel exports continued to be at these levels in the entire year of 2021, and also in the first four months of 2022. As you know any reduction in export of steel from China enables all other countries of the world to produce more steel, where about 47% to 50% of steel is produced through the electric arc furnaces, which is where our products finds its use.



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However, global steel output has recently started to moderate in the recent past due to the escalation of the Russia Ukraine crisis, coupled with supply chain interruptions, and inflated input costs impacting their margins despite near record level of steel prices. The margins of steel industry still continue to be healthy, although a bit lower than in the past quarters.

Friends, as we shared with you in our last concall after a very long time, we've seen a flurry of announcements by some of the large steel companies of the world especially in the US and Europe, for establishing new electric arc furnace-based steel capacities. These new Greenfield announcements total up to between 30 to 35 million tonnes of additional capacity – about 15 to 20 million tonnes of these are likely to be on the ground between this year and 2025 while balance will also be on the ground between 2025 and 2030.

This is in-line with world's desire to control carbon emissions seriously and take effective steps in that direction. It's not out of place here to mention that every ton of steel produced by blast furnaces emits about 4 times more carbon in the atmosphere as compared to the same ton of steel produced through the Electric Arc Furnace and hence this focus on electric arc furnaces.

Therefore, as the world keeps adding more and more electric arc furnaces in the immediate and foreseeable future, the demand for electrodes is likely to keep increasing – most of these will be large sized furnaces using ultra-high-power electrodes which we are fully equipped to cater to.

As you are aware, for a very long time, we've been maintaining a level of about two thirds of our production going for exports to more than +40 countries of the world, including US, Europe, Asia, and Middle East, etcetera. With this backdrop, our expansion of 20,000 tonnes, which is likely to be ready by the end of this year has been very timely and we are confident of being able to find markets for this additional production as soon as we go on stream.

Indian crude steel production has been increasing continuously in the past few quarters, calendar year 2021 versus calendar year 2020, increase was a whopping close to 18%. In January, March 2022, it further grew by about 4.6% compared to the preceding quarter of October, December 21. The steel industry in India has been in good shape supported by strong demand from domestic consumption and also exports to various countries.

The demand and consequently the price of electrodes improved quarter-on-quarter since the beginning of 2021. And we expect prices to remain strong during the rest of 2022 as well. We continue to work at about 90% capacity utilization since past three quarters and we expect to remain at these utilization levels.

Needle Coke prices also kept rising since the start of 2021 in line with electrode prices. Besides needle coke, prices of other raw materials and inputs also kept increasing. But as electrode prices have kept pace with this trend, we've been able to maintain our margins.



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We are upbeat by our expansion coming on stream by the end of this year at a time when more and more new electric arc furnace capacities are being installed. As no new capacities have been announced by any other graphite company in the Western world, we don't foresee any problems in finding markets for additional 20,000 tonnes. Our plant in Madhya Pradesh with a capacity of about 80,000 tonnes has been the single largest plant in the world under one roof and after expansion to 100,000 tonnes, this gap between us and other plants will increase further thereby increasing our competitive edge due to economies of scale.

In the current financial year, we expect our sales to be higher versus the previous financial year. Part of this increase would come by some technological innovations achieved by our technical team in existing facilities and the other part from the newly expanded facility which would start production from early 2023.

As you know the electrode process is a fairly long one involving between two and a half to five to six months. So, even if we start our expanded capacities let's say by end of this year, it will take another two to three months, two to four months to see the products out in the market.

In the passing, I'm happy to share that 2022 is company's 50th year since the incorporation and in all these years we have grown every few years, from a level of 10,000 tonnes to 100,000 tonnes. We've also gathered lots of experience and learnings as a company and have been through various kinds of business environments only to emerge stronger. I'm very proud of our entire team at HEG, whether general management, technical, marketing or finance, who have left no stone unturned to bring HEG to where it is currently standing. They've all worked tirelessly over all these years, especially the last two COVID years to make sure that we still attain our targeted commissioning of the expanded capacity, more or less within the time period that we originally announced.

With our five decades of experience in international business, we expect to be a supplier of choice to all our global and Indian customers.

With that I would like to pass the floor to our CFO Gulshan, who will walk us through the financial numbers, and then between me, our Executive Director, Manish, and CFO Gulshan we would be very happy to answer all your queries. Thank you. 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 year ended 31st March 2022. For the year ended March 2022, HEG recorded revenue from operations of Rs.2201 crore as against Rs.1256 crore in the previous year. The revenue for the fourth quarter of FY2022 was Rs.673 crore as against Rs.380 crores in the corresponding quarter of the previous FY. The revenue for the year saw an increase of 75% on an annual basis, while it witnessed an increase of 77% on Q-on-Q basis. Since the turnover is a factor of both volumes and prices, we are happy to inform you that the company has been able to achieve healthy growth in both aspects.



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During the year ended 31st March 2022 the company has delivered EBITDA including other income of Rs.607 crore as against 54 crores in the previous year. EBITDA for the year ended 31st March 2022 has increased many fold vis-à-vis last year, due to an increase in both the sales quantity and the price realization of graphite electrodes.

The increase in annual employee benefit expenses over the financial year 2021 is on account of annual increments in salaries and incentive to employees and provisioning for the profit related commission payable to CMD and ED of the company under contractual terms of their appointment.

The increase in expenses pertaining to power and fuel is on account of higher production during FY21-22 and the increase in the price of LNG, furnace oil, etcetera.

The increase in other expenses is due to higher logistic cost, which is because of the increase in the sales quantity in the current FY as compared to the previous FY along with increase in the price of freight and forwarding and increase in consumption of stores and spares on account of higher production.

In accordance with the provisions laid down in Section 135 of the Companies Act, the company has incurred expenditure on account of Corporate Social Responsibility amounting to Rs.19.12 crore during the quarter ended 31st March 2022, Rs.5.3 crore during the quarter ended 31st December 21 and Rs.30.65 crore during the financial year ended 31st March 2022 which has been included under the head other expenses. Please refer to note number eight of our published results.

RBI has also extended the interest equalization scheme on pre and post shipment rupee export credit during the quarter four of FY2022. The extension takes effect from 1st of October 2021 and the interest equalization rate have been revised from 3% to 2% with effect from 1st October 2021. The impact of the same related to the period 1st October 2021 to 31st December 2021 amounting to Rs.1.6 crore has been considered in the quarter ended 31st March 2022. Please refer point number nine of our published results.

The company recorded a net profit after tax of Rs.391 crore in FY2022 as against a loss of Rs.25 crore in the previous FY.

The company is a long-term debt free and has a treasury size of approximately 1400 crore as on 31st March 2022, yielding an average return of approximately 6% per annum.

The Board of Directors has recommended a 400% of final dividend that is Rs.40 per share, which is subject to the shareholders' approval at the ensuing AGM.



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We would now like to address any questions or queries you have in your mind. Thank you. Over to Naveen.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.

Sonali Salgaonkar: Sir my first question is regarding the price hikes. Could you help us with the broader quantum of price hikes between Q3 and Q4 that sequential as well as any further price hikes from 1st of April till now?

Manish Gulati: Sonali, good afternoon, between Q3 and Q4, it is of the order of 12%. And your question about what we foresee in the future, we are expecting to add at least 4% to 5% quarter-on-quarter.

Sonali Salgaonkar: And this could be throughout FY23, for the next three, four quarters at least?

Manish Gulati: I hope for that, because two quarters are visible to us, the April to June and July to September, that is for sure. And beyond that as we are booking quarter-by-quarter which you know about. So, I cannot really say that what will happen to the balance so, but demand continues to be there so I think it will go on.

Sonali Salgaonkar: Right. Sir just continuing on that. Your initial comments did mention that the global steel output has moderated post the Russia Ukraine crisis as well as supply chain issues. Sir could you dwell a little more deeper into this because all throughout last year, we saw very good demand which was supporting our +90% capacity utilizations. So, once and as the demand is moderating do you foresee the capacity utilizations to stay at elevated levels?

Manish Gulati: See the issues which are arising out of this Russia Ukraine thing are the steep hike in energy and electricity prices in Europe. So, as electric arc furnaces need a lot of electricity. So, we have seen the electricity prices go up by three times, which is kind of a dampener for the European electric arc furnaces. So, that is one issue, the supply chain which you know very well, that the way freight costs are going up, it is hindering global trade, whether it is of steel, or other commodities. And the way iron ore prices are also shooting up. So, all put together they're posing some challenges for steel industry.

Sonali Salgaonkar: Got it. And what are the current inventory levels, in the light of Russia, Ukraine war? Are we still looking at optimal or near normal inventory levels in the channel or do you think that they are now more at an elevated level?

Manish Gulati: Are you talking about steel inventories of steel companies or electrodes?

Sonali Salgaonkar: Electrodes.



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Manish Gulati: We are working at very low inventory levels, still, normal would be, let's say a month and we are working less than that. So, there are no excess inventories, either with customers or with electrodes suppliers.

Sonali Salgaonkar: Understand sir. Also one more thing about the China supply trends, the entire downturn about two, three years back majority of that was because of excess Chinese exports. So, how are we foreseeing the situation right now, has the supply really moderated especially of the electrodes I am saying not about steel, or do we still foresee some price disruption going forward because of any possibility of China coming back to export more?

Manish Gulati: I should clarify here, I'm sure you've heard this so many times from us. There is no dearth of capacity of electrode making in China. But what type of electrodes they're making and exporting to rest of the world is mostly the high-power variety, the lower grade electrodes which are mostly used in the ladle furnaces. We are yet to see the big customers actually qualifying them for UHP grade and giving them let's say 20%, 30% business. So, that is where we don't compete globally also, India also, we don't compete with them on the UHP part and our production is mostly UHP and not non-UHP, we do make about 25% or some 30% of non-UHP grade electrodes, but that is to service our customers who bought electrodes as a package they want us to be supplying the UHP also and HP also. And one point I can add to this is that, recently Europe has put a stiff anti-dumping duty on Chinese electrodes to the order of 25% to 27%. And US has also imposed a duty, that duty was imposed about maybe almost four years back, five years back and it still continues. So, there are steep duties against their electrodes (Chinese).

Ravi Jhunjhunwala: Yes, but Sonali notwithstanding the duties and everything that Manish explained. Let me again explain clearly that, more than two thirds of our production is what you call ultra-high power. China doesn't have the technology to produce the ultra-high power. So, what we are competing with China is for the lower 25%, 30% category which is the non-UHP. And as most of the steel companies who need ultra-high power, they also need one fourth of that quantity about that, in that region because they also have a small ladle furnace. So, we reduce that one fourth of our total production in non-ultra-power, because all these companies don't want to go to too many suppliers to find electrodes. So, generally everybody will be buying in that ratio of 20:80, 25:75 kind of a ratio of non-UHP and UHP.

Sonali Salgaonkar: Right. Sir what percentage of our overall exports is towards Europe, I'm asking because you did mention that the electricity cost in Europe have spiked, which is leading to some disruption in the demand from EAF so what exactly is the percentage of our exports to Europe?

Ravi Jhunjhunwala: Without going into the specific numbers, it's very low, it's not a very significant number.

Sonali Salgaonkar: Okay. Sir so, which are our key export geographies?



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- Manish Gulati:** See, America is one followed by Middle East, followed by Southeast Asia, then followed by Europe and little bit to African countries. So, we are pretty much in all the continents and all the major steel producing countries of the world about 40 countries, I would say.
- Sonali Salgaonkar:** Got it. Sir and this 30 to 35 million new EAF steel production which you talked about in opening remarks, where is it exactly coming?
- Manish Gulati:** About 15 to 20 in America, and rest is in Europe.
- Ravi Jhunjhunwala:** This is a new trend. I have been in this business for last 40, 45 years and except addition of a couple of million tonnes every two, three, five years, we haven't ever seen these kinds of numbers. And these kinds of numbers are all serious numbers, 50, 20 million tonnes each in America and 15, 20 million in Europe. These are significant numbers in terms of steel making. And as I explained, the major reason is that the focus that the world has now seen in the last five, seven years on the environment and carbon emissions and green energy and everything that has led to this kind of a shift. So, I'm not sure how many million tonnes of blast furnaces are getting closed to replace this by electric arc furnace, but a fairly large chunk of this is a replacement, they are being replaced by electric arc furnaces because as I said, you produce the same ton of steel through the two processes and the carbon emission is about four times higher in blast furnaces.
- Sonali Salgaonkar:** Right. So, sir you're saying that majority of this 30, 35 million is via replacement by EAF versus the earlier blast furnace due to de-carbonization, is that correct?
- Ravi Jhunjhunwala:** Not exactly. I would not say all of it. But a part of that is replacement, a part of that is addition.
- Manish Gulati:** Sonali the ones which are coming in America are the new electric arc furnaces, while Europe is more trend towards de-carbonization, America was anyway predominantly electric arc furnaces. So, these are the new furnaces, which are coming up in US of 15, 20 million metric tonnes they're like, and in Europe, they want to actually close down the blast furnaces, Europe is still 47%, 48% for electric arc furnace. So, the existing key companies what they are doing is, they are going to phase out the blast furnaces and put the new electric arc furnaces there.
- Ravi Jhunjhunwala:** And just to put a figure, America produces 70% of its steel through electric arc furnace. So, obviously there is a bigger focus on electric arc furnaces in America to start with.
- Sonali Salgaonkar:** And Europe is about 50%, is that correct?
- Ravi Jhunjhunwala:** In that region of 45%, 50%, there is no published data, we are just giving you this number based on experience.



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- Sonali Salgaonkar:** Sure. Sir just last question from my side, you did mention that the CAPEX will likely commission towards the end of this year. So, what proportion of our outlays already spent out of this 12 billion and how much are we left to invest this year?
- Manish Gulati:** See, 800 crores has already been spent till date and 400 remains to be spent until December.
- Moderator:** Thank you. Next question is from the line of Abhijeet Day from Quintus Wealth Advisors. Please go ahead.
- Abhijeet Day:** Just one question in terms of needle coke, because last year we saw prices rising. But going forward, let's say over the next two quarters what is the kind of price increases you expect in needle coke?
- Ravi Jhunjhunwala:** See, Abhijeet just like electrode, which is practically five, six companies in the world it's more or less the same story in needle coke, they're only two, three of them. And this kind of a needle coke that we use in graphite business, this is typically only for graphite. So, obviously if there is a higher demand for graphite electrode automatically, there is a higher demand for needle coke. So, both of these go hand in hand. So, it cannot happen, there could be a lag of one quarter here and there, but normally, we tag each other as wheels. So, whatever happens to graphite business the needle coke follows.
- Abhijeet Day:** But you don't see something like what you're seeing, three, four years back that graphite is today, the movement in graphite electrode prices basically lead needle coke prices and that spreads improved, that scenario do you expect to see this year or next?
- Ravi Jhunjhunwala:** No, I didn't get your question what scenario. As I said as needle coke if graphite price will go up needle prices will certainly follow, it's a matter of one or two quarter lag.
- Abhijeet Day:** Okay. I was asking the spreads, the price of graphite electrode minus the price of needle coke, you don't see that going up materially?
- Ravi Jhunjhunwala:** No, I'm not saying that. Obviously, there is a correlation between the two. But it is never an exact correlation. So, a couple of quarters here and there. It'll catch up. But obviously, what we are basically saying is that demand for electrode is very strong and as we have been saying that for a very, very long time we have been somehow concentrating on exports. Every year, our export is about between 65% to 70% of our production. So, although we don't see too many new electric arc furnaces being established in India, but we already spoke about this number of 30, 35 million tonnes which is on the annual in the whole world. And we have been there for last 30, 40 years in all these 30, 40 countries. Most of these new investments are coming at our customers who are already buying from us. So, it's just a matter of adding a little bit of market share with the existing customers.



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- Abhijeet Day:** And, on the Russian Ukraine conflict is there any disruption as far as Russia is concerned on the supply of electrodes, Russia is an exporter of electrodes, I understand to both Europe as well the US, it may not be the largest, but they have some market share. So, have you seen any kind of disruption over the last two or three months in terms of supply from Russia?
- Ravi Jhunjhunwala:** Russia is a very small producer of electrode and Russia is a fairly large steel producer, so a very large majority of their electrodes are self-consumed within the country. So, to the extent that they must be exporting a little bit to Europe, but it's not worth, it's not a quantity, which can be disruptive to anything, it's a very small quantity, it has always been a very small quantity. Again, in the lower category, the non-UHP.
- Manish Gulati:** If I could add to what Chairman said, see, this Russian supplier of electrodes was exporting some quantity, and at the same time Russia was importing some, with this, both have stopped. So, they were like exporting some low-quality electrodes and their steel companies were importing some high-quality electrodes. So, net-net, now they have to make do, they can neither export nor import. So, they have to make do with whatever is available locally, in whatever quality they can get, they have to manage with that.
- Moderator:** Thank you. Our next question is from the line of Pranav Jain from HDFC Securities. Please go ahead.
- Pranav Jain:** Sir, can you help me with the production and sales volume for Q4 FY22 and for the whole financial year 22?
- Manish Gulati:** Yes, we are at 90% capacity utilization, that's the figure you can take.
- Pranav Jain:** Okay, so you don't provide the numbers in terms of production and sales?
- Manish Gulati:** No, not at all. This is completely out of order in fact against the guidelines also, that we have published against, in fact the figures are not supposed to be given.
- Ravi Jhunjhunwala:** Pranav, I would just like to clarify here that if you have been tracking graphite business for a long time, as I said, it's a very long drawn process. Easiest process takes about two months to produce, and the most difficult one takes between five to six months to produce. So, in our kind of industry, which takes so long to convert the needle coke into electrodes and then go out in the market, so there are four, five very, very distinctly different processes in this period of two to five, six month that I'm talking about. And practically, we've never seen anybody consistently being able to achieve capacity utilization of let's say, more than 90%, 92%. So, I'm very generally saying that in our kind of an industry, which is process one to five are very, very distinctly different, and very, very long, even if there is a very small breakdown in any of these five processes the whole thing suffers, the whole supply chain suffers. So, we may see this going beyond 90%, 92%. We haven't seen any company consistently going beyond 92% to 93%.



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- Moderator:** Thank you. Our next question is from the line of Rajesh Agarwal from Moneyore. Please go ahead.
- Rajesh Agarwal:** My question, did we have a volume growth in Q4 and when we like capacity come online, and when can we see volume growth?
- Manish Gulati:** The volume growth of Q4 was the same as Q3 because the last three quarters have been quite hot in demand, and for the new volume to come in, we would rather say first quarter of calendar year March 23, that's when we should start seeing the volumes.
- Rajesh Agarwal:** How much volume growth can happen that time?
- Manish Gulati:** From this year to next considering the electrode demand we should be doing 7%, 8% more than what we have done last year 21-22, 7% to 8% more than that.
- Rajesh Agarwal:** And sir the price hike which we will be taking quarter to quarter 4%, 5%, will there be a commercial increase in expenses also, no?
- Manish Gulati:** See the needle coke price also is quarterly so that is also increasing quarter-by-quarter. But the good part is that electrode prices are able to absorb that increase and some other key inputs also.
- Rajesh Agarwal:** Okay. So, net to net benefit will be much more than the price hike?
- Manish Gulati:** At least similar margins would be there that's what we can safely say.
- Rajesh Agarwal:** Is there a possibility of spread increasing?
- Manish Gulati:** Depends on the market actually.
- Rajesh Agarwal:** If the demand scenario is very robust because 30, 35 million it will get added in US and all, then lot of local steel players who wants to increase the capacity by EAF technology. So, is there a possibility of spread increasing that is there?
- Ravi Jhunjhunwala:** Possibility of what?
- Manish Gulati:** Increasing spread.
- Rajesh Agarwal:** More than needle coke our selling price increases?
- Manish Gulati:** It's very difficult to answer this question actually, considering the global environment today, suppose this has not happened, we would said this with more confidence. But even if we are able to say we have healthy margins, and even if we are able to say today that we are in a position to maintain that, despite all kinds of problems, that is good, is it not?



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- Rajesh Agarwal:** It's good but, in commodity company it has to come from both the spread and volume growth also, volume growth will be 10%, if it would have been 20% it is okay with this volume.
- Manish Gulati:** And we are going to get additional volumes.
- Rajesh Agarwal:** I don't think there is any demand destruction in the graphite. It does not matter.
- Ravi Jhunjhunwala:** We don't see that and the cost part, you have been tracking the logistics disruptions and all and since they are exporting more than two third of our products, in some countries the freight rate has gone up by five times, double is very, very normal, two times to three times is very normal, but in some cases it is.
- Rajesh Agarwal:** We are taking the freight hit sir or the customer is taking that?
- Ravi Jhunjhunwala:** We deliver CNF,
- Manish Gulati:** CNF is door delivered so all this.
- Ravi Jhunjhunwala:** Three times increased; we have been able to pass on all the increases basically.
- Rajesh Agarwal:** Sir, there can be any disruption in the capacity being added to EAF technology no?
- Manish Gulati:** No, there is in fact on the contrary, the clamor towards EAF is only increasing by the day.
- Rajesh Agarwal:** Okay. And what about worldwide graphite demand and supply, is it a shortage?
- Manish Gulati:** Right now all the global companies, all the Western companies are running to this order of 90%. Any little demand increase will help in further hardening of prices.
- Moderator:** Thank you. Our next question is from the line of Dewang Sanghavi from ICICI Securities. Please go ahead.
- Dewang Sanghavi:** My question is regarding the European market. European market is currently 45% to 50% EAF based and we expect another 15 to 20 million of EF capacity coming online. So, this 45%, 50% share can go to 60% plus in the next three to four years?
- Manish Gulati:** Yes, obviously, when this gets added, it will increase the share of EAF.
- Ravi Jhunjhunwala:** Dewang, if you look at the world production of steel, it's like somewhere in the region of 900 million to let's say, 950 million something like that. So, if you calculate mathematically between 45% to 50% in electric arc furnace and then you add another 30 million tonnes. So, it's a substantial change, substantial number. And basically, the other way to look at it is the 30 million tonnes whenever it gets added obviously to happen over the next two, three, four years. Some of



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this is going to happen within this year. I don't want to publicly give the numbers on the table. Out of this 30 million tonnes, some of it is coming within this year, within the next nine months. Some of it is coming in 2023 and then in the next five to six years, all that is going to be on the table. So, the demand increase for electrode could be anywhere in the region of between 40 to 50 thousand tonnes if you take 1.5, 1.6, 1.7 kilos per ton of steel, on 30 million tonnes, 35 million tonnes the demand increases is going to be in that region of 40, 45, 50 thousand tonnes. And no new capacities have been announced, at least up till today. So, the only increase which is happening in the graphite industry in the world is the 20,000 tonnes that we are adding by the end of this year. And again, to remind you, we had taken this decision to, and it's a brownfield expansion it's not even a Greenfield. And we had announced our intent to increase exactly in October of 2019. Our company which has gone through six, seven, eight expansions in its lifetime we have taken about three, three and a half years, 3.25 years just to add 20,000 tonnes. So, what I'm trying to impress is that, even if somebody was to announce an expansion today, it's a matter of anywhere between three to four years. Basically, what I'm trying to impress is, new capacities even in a brownfield case, is a very long drawn process.

Dewang Sanghavi: Right. So, demand supply dynamics will be strongly in favor of demand for next three, four years, because demand is there and there's no specific new capabilities coming on stream?

Ravi Jhunjhunwala: I can only put the figures; I'm hoping what you're saying is right.

Dewang Sanghavi: True sir. Secondly, this European market, it was seeing some challenging times, because of the electricity cost as you highlighted in your opening remarks, has this been implemented in last 15 20 days or it is the same thing?

Ravi Jhunjhunwala: Last 15, 20 days I don't think anything has changed in 15, 20 days.

Dewang Sanghavi: Closer to a month, say utilization improvement in Europe after not a good April and March because of energy cost and maybe first three, four months because of energy cost and some improvement happening in say last month or so, still the challenge continues. I just want to take your view on the same. Can we see improvement in Europe happening next three, four months, while it's still difficult to call?

Manish Gulati: Dewang this energy cost prices for them are still at a very high level. Of course, they are not sustainable and of course they will come down with time. But right now they continue to face that challenge. So, we have seen the customers were placed orders on us, requested for a push back. Anybody who needed electrode in June now wants in July, the July guy wants it in August, so it's a push back of orders because they're not operating electric arc furnace to the full extent they can. They operated off peak hours and in peak hours, the electricity prices are way too high for them. But all this is going to be temporary, and nobody is going to pay those kinds of electricity prices, industry or domestic. They're just completely unsustainable so they will probably cool off in the next two, three months. The long term trend of electric arc



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furnace will always be there, because they are very cautious about it, and the best efforts are being put in Europe to decarbonize, they have put carbon taxes on that.

Dewang Sanghavi: The cost is very high and probably will not sustain, and maybe this has come with a comeback?

Manish Gulati: Carbon cost has gone up from \$28, \$30 to almost \$90 today. So, who's going to pay that carbon cost, it's completely away. So, eventually it will be restored, it's only temporary that electricity prices are so high that they are kind of operating the electric arc furnaces less than capacity.

Dewang Sanghavi: Alright. And my last question on the recent exposure to on steel exports. What is your take on the same is there any demand impact?

Manish Gulati: See in India Dewang, India despite producing 120 million tonnes of steel, no more than 30% is produced from the electric arc furnace route. So, yes, it is a dampener for our steel customers, but government is trying to do whatever it can to control inflation. So, I believe this is also a temporary nobody puts export duty like this. They will also be taken off once the domestic market cools down on prices, and we are anyway, as Chairman said two thirds is we export to 40 countries, so we won't see as much impact.

Moderator: Thank you. 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. Jhunjhunwala for closing remarks.

Ravi Jhunjhunwala: Thank you, friends for joining us today and asking some very pointed, pertinent questions. We are very happy to be living in this environment, which looks very good, very optimistic to us. And I look forward to talking to you once again in three months' time. Thank you.

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