

## Power play

When the Rs3,600 crore LNJ (Laxmi Niwas Jhunjhunwala) Bhilwara group, traditionally a textile player, looked for diversification in the late 1970s, the only licence L.N. Jhunjhunwala, a first generation businessman, could secure was for making graphite electrodes. And he went for it through HEG Ltd (formerly Hindustan Electro-Graphites), with an investment of Rs14 crore and in technical collaboration with Societe Des Electrodes Et Refractaires Savoie (SERS), a subsidiary of Pechiney of France.

Little did Jhunjhunwala realise that his Rs1,150 crore HEG would emerge as Asia's leading player, exporting 80 per cent of its production to 30 countries, and would be part of the august list of eight manufacturers in the world. HEG supplies graphite electrodes to leading steel manufacturers, both domestic and global – like ThyssenKrupp, ArcelorMittal, Nucor, Tata Iron and Steel, SAIL and Essar.

Graphite electrodes find their biggest industrial use in electric arc furnaces (EAF) in steel plants, where steel scrap is melted. The demand for graphite electrodes is, therefore, sensitive not to steel prices, but to steel production volumes through the EAF route, which accounts for 31 per cent of the world's steel production. The US has an EAF share of over 60 per cent, while Europe has 40 per cent plus, the Middle East 80 per cent, and South America 60 per cent, respectively.

Today, as the second generation led by son Ravi Jhunjhunwala, chairman of the group, is moving on, HEG has embarked on a major expansion mode at its plant in Mandideep, near Bhopal, MP. "We have been investing in upgrading and setting up of our own captive power plants," says Ravi. "During 2003-09, we invested close to Rs725 crore. Now, we are investing to enhance the capacity, which initially started with 10,000 tonnes per annum (tpa) and grew to 66,000 tpa. Post expansion, at a cost of Rs225 crore, HEG will produce 80,000 tpa. The time schedule of this is 18 months from now," he adds. Since manufacturing of graphite electrode is highly power-intensive, HEG first set up a 31 MW captive thermal power plant in April 2005, in addition to a 13.5 MW hydroelectric power generation plant at Tawa Nagar, which is the first one set up by a private sector player in MP.

"We have now installed the second 32 MW thermal plant, which meets our total power requirement to produce 80,000 tonnes of graphite," says Ravi. He has thus been able to



Ravi Jhunjhunwala: on an expansion spree

emerge as a low-cost producer and the largest player in the world at a single location. Ravi's vision is to hike the graphite electrode capacity to 100,000 tonnes. In order to fuel growth, HEG will explore organic and inorganic routes.

In the past, HEG had considered the acquisition route, as it would help the company set up a foreign base. Romania and China were some of the countries it considered for acquiring plants. "Having a foreign base would have helped HEG in increasing its exports," says an analyst. "The quality of electrodes made by HEG compares with the best in the world, while the price is less than half. Now, many countries like the US are shifting their base to the developing world, as the cost of domestic manpower is high. The rate of one tonne of electrode manufactured by them is around \$400, while HEG offers the same for almost half that price," points out the analyst.

"The current expansion to 80,000 tpa will make HEG the largest integrated graphite electrode player in the world and will earn additional sales of Rs300-350 crore per annum on current prices," says Ravi. His next big bet is the power sector, where he has thermal projects of 2,500 MW – under the banner of Bhilwara Energy Ltd. The success in running captive power units has encouraged the Jhunjhunwalas to diversify into power production. "With demand for power increasing, we have decided to invest in hydel power projects," says Ravi, identifying HP as an ideal place to set up hydro projects. The group already has the Malana hydro project there. He has lined up Rs16,000 crore for the next 3-5 years in power projects in HP, Sikkim and Arunachal Pradesh.

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*In November 2006, Business India had reported how the LNJ Bhilwara group was making rapid strides in all its verticals. Currently, even as HEG is expanding, the group is drawing up plans for the energy sector*