



“HEG Limited Q2 FY18 Earning Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the HEG Limited Q2 FY18 Earning 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 ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ravi Jhunjhunwala – Chairman and Managing Director, HEG Limited. Thank you and over to you sir.

Ravi Jhunjhunwala: Thank you and good afternoon friends and welcome to HEG second quarter 2017-18 conference call. I would like to start by briefing you on some of the recent developments primarily led by China which have had a positive impact on our industry. As shared with you in our last concall, in the beginning of this year, the Chinese government decided to crack down on about 12-15 highly polluting industries due to serious environmental concerns there and they decided to close down a very large capacity of their induction furnaces as they are inefficient and highly polluting. In addition to this, they also shut down a lot of their mini blast furnaces for similar concerns of environment. While no official data is available but it is believed that this could be as high as between 100-120 million tonnes. To put it in the perspective India produces no more than about 100 million tonnes of steel currently. The resultant impact of this major development has been, one, there is a sudden drop of export of steel from China to the rest of the world which used to be approximately 150 million tonnes per annum for the last couple of years. The export of steel in the first half of 2017 came down to an annualized level of 82 million tonnes which is a drop of about 30% and in September 18, it came down to an annualized level of just 53% of last year which is the lowest export since February 2014. This large drop of steel exports from China over the first 9 months of the year is helping an equivalent additional production of steel outside of China and as you know around 45% of the total world steel outside China is produced through electric arc furnaces and there is a suddenly increased demand of electrodes all over the world.

Secondly, in addition to export of finished steel as above, China was also exporting substantial quantities of semi-finished steel in the form of billets. This has also come down sharply in the last few months with the results, more steel has been produced in those countries which were importing billets hitherto from China. We believe this reduction of billet exports is around 20 million tonnes on an annualized basis and billets are primarily produced by countries with prominent share of electric arc furnaces and this has further increase the demand of electrodes in those countries where electrode consumption has always been high. Third, on top of this an estimated more than 200,000 tonnes per annum of China’s electrode capacities have also been shut down since the beginning of this year again due to the same environmental issues. It is believed that in the wake of approaching winter months in China, such measures would be further strengthened thus possible closures of some additional steel plants as well as graphite electrode capacities cannot be ruled out in the immediate future.

Friends, all these has resulted into a shortage of electrodes not only in China but also in the rest of the world. China, which was a large exporter of low-grade electrodes to the rest of the

world, has now become a net importer of all grades of electrodes, thus vacating some markets of electrodes to other producers like us. Some steel related consultant and analysts believe that China's export of electrodes could slum from around 200,000 tonnes in 2016 to about 100,000 tonnes this year creating an opportunity for graphite producers like HEG. All this has happened in the backdrop where the graphite industry which passed through a rough period in the last 3-4 years had to resort to shutting down of capacity of around 160,000 tonnes in the western world outside of China leading to a large demand supply imbalance currently. Thus while on one side worldwide electrode capacities got substantially reduced, we see a sudden jump in the demand for our products all over the world, including China. World steel production in the first 9 months of 2017 has gone up by 5.6% as compared to the same period in 2016. This is amongst the highest percentage of steel growth in the last 5-6 years when the average steel growth was happening in the region of 1.5%. As per the world steel association while the global demand of steel in 2016 was 1,1516 million tonnes, it is believed that in 2017 it would rise to 1,622 million tonnes, a healthy increase of about 7%. Closures of around 150,000 tonnes of electrode capacities outside of China, closures of another approximately 200,000 tonnes capacity in China, sharp reduction of finished steel exports from China along with a sharp reduction in billet export from China, large closures of steel capacities in China, all these factors have suddenly created an imbalance between the supply and demand of electrodes and the spurt in the demand of electrodes in all parts of the world including India and obviously this has led to a sharp increase in the spot prices of electrodes. On the other hand, with the sudden increase in the demand of electrodes, needle coke availability which is our primary raw material has become a bottleneck. The maintenance shutdown of some of the large refineries where these needle cokes are being produced have all coincided this year, further affecting the needle coke availability. Due to excess capacity of needle cokes in the recent past, some of the needle coke producers have been trying to find a new application for coke in the lithium ion batteries. In the last couple of years, needle cokes have been successfully used in this application and a reasonable part of needle coke is now being diverted to China for use in the lithium ion batteries which has limited the available quantities of needle coke for the electrode producers around the world.

To meet the production capabilities of steel due to large scale shutdown of induction and mini blast furnaces in China, it is believed that China is in the process of installing some large electric arc furnaces, which will result in an additional requirement of electrodes to the tune of around 75,000-100,000 tonnes within China over the next 2-3 years. This is likely to further widen the current demand supply imbalance of specially the ultra high power electrodes worldwide. In this background, the spot prices of electrodes have risen sharply over the last 6 months which has enabled HEG to report a very healthy result for the second quarter. However, as you know traditionally in our industry, a large part of our order book is committed at the beginning of the year and this year was no exception. I believe most of the electrode industry around the world had committed a part of their current year production at previous year's low prices by the time this China led development started getting noticed. But still a part of the quantities are now being sold by all the producers at current spot prices which differs widely in different parts of the world. On our part in the first quarter, more or less entire

sales happened at previous year's low prices. But in second quarter we started depleting some of our old price contract. Started selling part of our production at spot prices which increased our average sales realization. This strength will gather momentum in the current quarter and in the last quarter of January-March 2018 when our old price sales volumes will keep coming down and new hire price volumes will keep increasing, thus sequentially improving our per tonne realization quarter on quarter. Friends in summary, I would like to state that we are optimistic about the graphite industry in the near term. We expect to run our operation this year in the region of anywhere between 80%-85% of our capacity and as we start selling more and more electrodes at higher spot prices in the next few quarters, we expect to deliver better result. I would now request our CFO and COO Mr. Rustogi to take you through the financial and then we will be very happy to answer all your questions. Thank you.

Raju Rustogi:

Good afternoon friends, I would share with you a quick overview of Q2 FY18 numbers and then we will take questions. For the quarter ended September 18, HEG recorded net operating income of 409 crores as against 214 crores in the previous quarter, a jump of nearly 91%. EBITDA including other income which stood at 24 crores in the previous quarter has increased to 192 crores, a jump of nearly 700 percent. Company reported a net profit of 113 crores as against loss of 8 crores in the previous quarter. Since turnover is a factor of both volume and prices, we are happy to inform that the company has been able to achieve a healthy growth in both the aspects. Though the supplies are a mix of old and new orders, the impact of new prices is favorable. There has been a significant change in the industry scenario as a result of China development which were explained just now by our Chairman Mr. Ravi. On the costs front, those impact of increased prices of needle coke and Indian coke has started to come in. Their full impact is expected in the coming quarters. Net sales and also the segment results in power segment are more or less in line with the previous quarters and continue to support the bottom price in a healthy way. Total debt as on date stands at 683 crores as against 686 crores as on 31st March 2017. This comprises of 215 crores of term debt and the rest towards working capital loan. This is all from my side friends. We are open to providing clarification and answers to all your questions.

Moderator:

Thank you very much sir. Ladies and gentleman, we will now begin with the question and answer session. First question is from the line of Bhalchandra Shinde from Ananth Rathi. Please go ahead.

Bhalchandra Shinde:

I would like to know first of all about the needle coke prices, means like though in this quarter more or less see that it is flattish. What kind of scenario you see over next few quarters, means what kind of EBITDA per tonne we can generate over next 1 to 2 years?

Ravi Jhunjunwala:

See, without going into the specifics of the prices, all I can tell you is that, this is the first time after 30-40 years that we experience all the needle coke suppliers requesting for a 6 months revision which always used to be annualized. So our coke prices were fixed for the first 6 months of our financial year April to September and the prices are surely increasing from October onwards which are fixed until March and currently it is too early to talk about what

the prices would be let us say from April 2018 onwards. We will only get to know after about 2-2.5 months.

Bhalchandra Shinde: Sir, as you said that there is a planned maintenance for needle coke, will it affect our volume growth or it won't affect that much?

Ravi Jhunjunwala: This plant maintenance at 2-3 different refineries all got mixed up at one time and let us first half of this year. So I believe all those have been completed and all of them have come back to their normal production levels.

Bhalchandra Shinde: Okay. So for next year we will be having a total capacities available in needle coke?

Ravi Jhunjunwala: Yes. The capacities should be available because most of these plants have been, has already undergone 2-3-4 year kind of a maintenance which happens every 2-3 years in their case. But as I said over the last 3-4 years they have found a new application for needle coke, up till now needle coke was only required by people like us for electrode industry. We don't know how large that development is and how many more tonnes of coke will go in the other direction.

Bhalchandra Shinde: Sir, but if at all, say needle coke is coming back on on-stream, so will it affect the graphite electrode prices which is currently at around \$25,000 a tonne. So is there a risk that those prices will come back to around \$10,000 a tonne. How fixed price contracts will evaluate, because I think in next 2-3 months most of the contracts will get renewed for the next year, right?

Ravi Jhunjunwala: Yes, you are right. As I said sequentially every quarter they will be selling more and more on the new prices and less and less at old prices. So average realization in the current quarter would be high than in the second quarter and our average realization in the last quarter will be higher than the third quarter because obviously the lower price contracts are being dispatched as early as possible in order to get rid of all these tonnages.

Bhalchandra Shinde: Sir, how much do you think it will be sustainable, those prices? Will it be able to sustain, will we be able to sustain the prices for the next two years at least?

Ravi Jhunjunwala: That is a million dollar question. I wish I had directly an answer to that, but whatever I just tried to explain this feels like a very strong structural change. I mean closing down 120-150 million tonnes of steel, doesn't happen without a proper planning. And as I said in perspective if you see, India is just going to produce about 100 million tonnes of steel this year and they have closed let us say 1.5 time of total India's production of steel. So I am sure a lot of thought has gone into or has gone behind this decision. It is a very major structural change and what has happened in this case is that most of the closures have happened on the environmentally insensitive induction furnace and some of the mini blast furnaces and not on electric arc furnaces. And we have been talking about for many years, if you look at the percentage of electric arc furnace out of the total steel in the world, it is about 45%. As soon as you put China into this puzzle, it dropped down to something that is 25% because as we know China

produces little more than 50% of the world steel, but China's share of electric arc furnace is hardly 7%-8%, versus the world average of 45%. So this was due in any case, whether they had done this politically, I mean this is a decision which we have taken because of environment issues but China had to follow the normal route which is the electric arc furnace route which rest of the world has been going through for the last 20-30 years. So as I said China's share of electric furnace has been 7%-8%. The world average is 45%. So with all these closures for the induction and mini glass furnaces, there are very large number of large electric arc furnaces which are under installation in China right now. So that will only increase the demand for electrodes in China. And as we know China doesn't have the technology. China is not able to produce the real ultra high power electrodes and they have not been exporting this grade of electrodes. So hopefully in two years' time, these new electric arc furnaces which are right now under insulation in China, once they start operation the demand of UHP electrodes in China will go up substantially and so far China is not able to those electrodes. It will probably open up a new market for all of us.

Bhalchandra Shinde: And sir my final question is like, we are generating around 100-120 crores every quarter from here onwards. So where you see yourself after one year? Will we be able to convert ourselves to a debt free company?

Ravi Jhunjunwala: See, as far as debt is concerned, our long term debt is just about 230-240 crores. So which we are very sure in the next 3-4 months we should be able to repay all those loans. So as far as the long term loan is concerned we should be free of all those debts in the next 3-4 months and so far as the rest of the 400 crores is concerned, as we probably know, the production cycle of electrodes is pretty long. It takes anywhere between 2-4 months to produce electrodes. So to that extent our working capital requirement is fairly large. Now it is a question whether we can use the cash flow that we have in generating something more than 6.5% or not. I mean our cost of borrowing for the working capital loans is no more than 6.5%-7%. So what is the better use of the cash flow that we will be generating. It all depends, whether we have an opportunity to use this money for more productive purposes or we use it for repaying the working capital loans also.

Bhalchandra Shinde: Sir, what I have seen is like, as your peer have also stated that because of all this conditions that steel mills are really improving and everything is really going well for even steel manufacturers. We are seeing repayment of receivables which were kind of a bad or sticky over last one to two years even from the players who are really, there were less remote chances to receive anything from them. So that kind of a scenario have you seen in your case, means like is there a working capital improvement on that end?

Ravi Jhunjunwala: I will have Mr. Rustogi answer that. But the answer is yes, he will give a little more detail.

Raju Rustogi It is very clear when the steel industry's performance is also improving along with us, the payment cycle is also showing an improved trend. So our working capital will not grow to the extent of turnover growth that we are seeing.

- Bhalchandra Shinde:** But is there any change in receivables in absolute terms from the margins until now?
- Raju Rustogi** Yes. In absolute terms the receivable is a factor of sale price and the volume of sales. So with the price increase definitely the receivable would go up in absolute terms. But in terms of number of days of sales, it is coming down.
- Moderator:** Thank you. The next question is from the line of Aditya Wagle from Aequitas Investment. Please go ahead.
- Aditya Wagle:** Yes sir. I just wanted to get an idea of currently what are your graphite electrode prices and what guidance do you give for them going ahead in the spot market?
- Ravi Jhunjunwala:** See, that is one question we would not like to answer because obviously it is a competitive market. But I can only say as I said the spot market is extremely volatile and there is no one spot market that we try to spend x in one country, y in one country and z in the third one, this is a very dynamic situation and so long as there is no long term contract and so long as we are not committed to a particular customer at a particular price, we are just going by what the market is there. So I don't see, of course, when we are talking about 25,000 as one of our friend just mentioned but these prices exist in China because China is one place where this has had the most major impact because everything is led by China in this industry today. Since we are extremely short of steel where ability to export has substantially reduced, which has resulted into highly improved steel prices within China, there is a shortage of steel in China. So there is no interest as far as they are concerned to export steel. So a lot of electrode capacity has come down in China. They have also been shutdown. So electrodes prices have jumped up steel where more and more steel is being produced through electric arc furnace which is resulting into more and more demand of electrode. So we have heard about these prices that we keep seeing here and there of \$25,000-\$30,000. But this is not a normal price. I mean, I would not like to say that the spot price normal is about \$25,000-\$30,000. But of course that is not also \$6,000-\$7,000. So it is anywhere between this 6-7 kind of a prices and \$25,000 prices.
- Aditya Wagle:** Sir and can you tell us how much of the capacity currently is tied up in long term contracts and how much is spot?
- Raju Rustogi** No, again this is a number which we would not like to publically discuss, but as I said our first half was let us say practically 100% old prices. The second quarter results we have already seen which had a large percentage of old prices. But that large percentage of old prices will keep coming down as we go through the risk in the next 2-3 quarters. This quarter will see a jump with realization compared to the last one and the January-March quarter will be hopefully much better than what we have been seeing after the December.
- Ravi Jhunjunwala:** Average prices will keep going up as we finish our old price contracts.

Aditya Wagle: Alright. And sir in your presentation you have indicated that incremental capacity I think you can add about 15,000-18,000 in the next 12 months-18 months you have. Can you give some guidance on your capacity expansion plan?

Ravi Jhunjunwala: You see, we have always said that we have all the way with us to go to over 100,000 tonnes. But it is too early to react to that because as we said even in the current situation where we should be producing at 100% and take advantage of higher prices and everything, because of the needle coke issue nobody is going to go beyond 80%-85%. And this change has been so sudden. I mean, we should not forget that the April-June quarter we were talking about a negative profit of 7-8 cores which has happened very suddenly. So our first aim has to be that we get enough coke, whether it is needle coke or Indian coke or whatever and at least go to level of 90%-95% before we start thinking about expansion. But coming to expansion we have always maintained that, you see in electrode production there are 5 or 6 different processes which are very distinctly different from one another. And every graphite producers faces this problem when he is expanding his capacity, because it is practically impossible to have 5-6 processes finding the same level of production. So in one of them we are more or less at 100,000 tonnes and in two of them we are close to 90,000-95,000 tonnes. So when we do decide to go to 100,000 tonnes, we will have to increase capacity from 80 to 100 in about 3 out of the 6 operations and the other 3 we are somewhere in between 80 and 100. But again we cannot put a number right now because we haven't asked for prices, we haven't asked for quotations. It will be at least a time period of 2 years, anywhere between 20-24 months and we have no idea at this moment whether it will be in the region of 100 crores or maybe 200 crores, but it will be somewhere in that region. If I were to put a number it will be closer to 200 crores or 200 crores plus something like that.

Aditya Wagle: For a new capacity of size, sorry, I didn't get?

Ravi Jhunjunwala: Yes. It will go to 100,000 tonnes.

Aditya Wagle: Okay, fine. So sustainable EBITDA, what do you see percentage wise?

Ravi Jhunjunwala: See, this is again a question of what level and till when this trend of this price increase would continue. Sustainable is a factor of not only selling but even cost. Today it is very difficult for us to say what is the sustainable level.

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

Anubhav Sahu: I have a question mainly on needle coke capacity constrain. So what level of capacity utilization can we expect given the needle coke demand supply scenario in the next few quarters?

Ravi Jhunjunwala: See, as I said in my opening remarks, we expect to run at around 80%-85% in the current year.

- Anubhav Sahu:** And sir what is the delta as for this spot price is concerned between UHP and the other grades like what is the run rate? Has the delta narrowed a bit because earlier we heard that lower grade electrodes have spot more higher than the UHP one. So is there a...?
- Ravi Jhunjunwala:** You are right. You see, as everything has been led by China and China is majorly producing these low-grade electrodes, which is where a lot of capacities have been shut in China and as I said Chinese electric arc furnace steel production is increasing month after month. So obviously there is a bigger shortage of non-UHP. So to answer your question, you are right. The delta which existed between UHP and the non-UHP, the difference has existed, is now coming down and down. I mean it could be probably one day it will be exactly the same, I mean it is just the electrodes and no longer UHP and UHP differentiation as far as prices are concerned.
- Anubhav Sahu:** Right. And sir what is the company's stance as far as production of grades are concerned? Are we still going basically for UHP or UHP mix has changed substantially?
- Ravi Jhunjunwala:** No. It has not changed much because it is determined by the market. I mean, we do not want to take a very short term view even if the delta was in favor of non-UHP currently. The world market is all basically UHP. So by sending drastically our share of non-UHP because probably you need better contribution on one UHP currently is going to hurt us because obviously you cannot vacate the market that you have nurtured the last 30-40 years.
- Anubhav Sahu:** And sir since the way you mentioned for needle coke, probably the contracts are more shorter term in nature and the cycle which we have for the needle coke supply, the similar kind of cycle now we have for the supply of UHP also. Is it the right assumption to make that in both the case probably we are going for a short to quarterly kind of contracts and probably the annual contract percent is per se probably would be lower this time?
- Ravi Jhunjunwala:** Yes. You are absolutely right. Given the current scenario of needle coke, obviously we are not in a position to position to offer one year contract. So in lots of cases because of an imbalance between demand and supply what we are doing is we are making a commitment for a quantity on a quarterly basis with a provision that we will keep talking about the price every quarter.
- Anubhav Sahu:** Okay sir. Then just one clarification. So you mentioned about 200 Cr. plus capacity expansion. This is under evaluation. It is still not decided yet, right sir?
- Ravi Jhunjunwala:** No. Not at all.
- Anubhav Sahu:** And if it happens, it would be for 1,000 tonnes kind of capacity, right?
- Ravi Jhunjunwala:** No. The next expansion will take us to 100,000, from 80 to 100.
- Anubhav Sahu:** That would be kind of a doubling the current capacity?

- Ravi Jhunjunwala:** No. I am talking about going from 80 to 100, not doubling.
- Anubhav Sahu:** Okay. Sorry, my bad. And sir whenever we go for it, so much times should it take like capacity to go live, any...?
- Ravi Jhunjunwala:** Around 2 years.
- Moderator:** Thank you. The next question is from the line of Rahul Murkya from Jefferies. Please go ahead.
- Rahul Murkya:** Sir, I have 2-3 questions. Sir firstly if you would be aware, like obviously you would be aware of this GrafTech being a large player. They came in and they said that the first quarter of next year the realization would be in the range of \$7,500 per tonne and being a large player they have guided this kind of realization. So just wanted your views, like where do we see our realization is going?
- Ravi Jhunjunwala:** See, it is very difficult for me to comment on somebody else's comment, but as I said sequentially you will see an improvement in our own cycle on a quarter on quarter basis and while on this subject, I would also like to draw your attention that GrafTech is also offering long term contracts and there are two types of contracts that they are offering to most of their regular customers which is a 3-year contract and a 5-year contract. Most of the regular customers, which is a 3 year contract and a 5 year contract. And you are aware of the figures. You are aware about the proposals that they have sent to most of their customers on a 3 to 5 year contract and the prices are nowhere close to what you just mentioned.
- Rahul Murkya:** No, I just wanted to understand being like, since GrafTech is a large players and they used to last 3-4 years they used to decide the price. So would we be able to sell above these levels at least for the first quarter or the fourth quarter for us in the first quarter for them?
- Ravi Jhunjunwala:** See, I cannot talk very specific numbers, I mean you can very easily calculate based on the data that you already have.
- Rahul Murkya:** Fair enough sir. On needle coke, just wanted to know till what timeframe we have the capacity, we have contracts with needle coke, like we have logged in with March 2018?
- Ravi Jhunjunwala:** Yes, up till March shipment, yes.
- Rahul Murkya:** And sir, like in taking this question forward, on the Indian coke which we used for producing the non-UHPs, so just wanted to have this understanding liket do we, is this Indian coke also a constraint supply or do we see that this Indian coke being in abundant and we have the capability to shift from UHP to non-UHP electrode. So do we think that and try to maximize our utilization levels going forward?

Ravi Jhunjunwala: To answer your second question first and as I just responded to our another colleague's question, the market will decide the percentage of UHP, non-UHP and traditionally we have been producing about 70%-75% on the UHP and 20%-25% for non-UHP and that is more or less a mix of the world market. So one would not like to deviate much because of the short term gain. The second question about abundance of Indian coke, see, there are various consigners who in India who handle various kinds of raw petroleum coke which is there on till and the only other people who use calcined petroleum coke the Indian grade are our friends from the aluminum industry and their quality of coke requirement is much lower than what our quality is. So all these 4-5 refineries which produce a raw material for consigners, all of them don't have capacity to produce the high grade of raw petroleum coke which is required by us. So to that extent yes, it is not in abundance and it is only available at couple of refineries that is not all and within those couple of refineries there is a particular tonnage, there is a proportion of their raw petroleum coke production which is good for even the non-UHP electrodes, the other refineries coke cannot be used even for the non-UHP electrodes. So to that extent yes, it is not a very free flow kind of a supply. It is becoming more and more difficult to get enough of Indian coke also and the prices are increasing month after month.

Rahul Murkya: And sir on this, as somebody has also asked, I just wanted to know your views like would there be, like would we be diversifying our business because of the high cash relation, like are we looking at some on that front or we would be using this cash to pay off a debt or they would be like after paying off the debt we would be passing on this to the investors. Basically wanted to know is like how the dividend payout ratio would be since like last two years we have not paid any dividends?

Ravi Jhunjunwala: See, our payout ratio if you see our record, it has been somewhere in the region of 25% to 30%. That has been our standard payout ratio. So I am sure the board will consider at least 25%-30% and maybe more given there is a last couple of years we have missed dividends. And answering to your first question we recently had our Board meetings 3-4 days ago and a lot of discussion obviously took place on how to best utilize this cash flow. As I said our first thing that we would like to do is to repay our 200-240 crores kind of a long term debt which is at maybe 10%-10.5%. And rest of the debt is all working capital which is coming to us at about 6.5%-7%. So obviously one would look for some opportunities to acquire something or to diversifying to different areas, rather than repaying a 6.5% debt. But obviously I mean you are going to appreciate that these kind of cash flows that we are talking about have suddenly appeared on the scene. So we have also been taken by surprise at the turn of events suddenly. So any diversification, any acquisition obviously will take time. I mean, it is not going to happen in the next 3 or 6 months' time. But yes, it is on our radar and we have started talking and we have started thinking about it very seriously.

Rahul Murkya: Sir, this 240 crores of long term debt just wanted to know would there be any problem in paying out this earlier than the scheduled payment?

Ravi Jhunjunwala: No. This is between two different banks and in one case we can prepay anytime as we will have without any penalties and in one case there is a small penalty, small, I mean we will not

bother about that and I am sure given our very strong relationship with this particular bank not only in HEG but in rest of the group companies we can probably come out with some solution there. But that penalty is small, so that is not going to deter us from not repaying.

Rahul Murkya: Sir just last question, in your opening remarks you said that China which used to be a net exporter has become a net importer of electrodes. Like what I have read through the recent reports and all, China only used to produce the non-UHP grade of electrodes and as of now I believe that we are not selling anything in China, right?

Ravi Jhunjunwala: We are not, I mean we have started going, we have started analyzing the market, we know who the buyers are, we know who the traders are and we can very easily export and so that is not the case, I mean but again given the current scenario we have to first take care of our regular customers, we can't just ditch them and go and fetch a \$1,000 more in China. We are keeping in contact. We are constantly, our people are travelling to China, assessing what we can get in China and if we have more capacity, if we have some more electrodes to sell, we will surely go and sell.

Rahul Murkya: No, basically what I was trying to understand like there would be a 50-60 million tonnes of electric arc furnace that will be coming up in China in next two to three years as per the news articles that we go through. So these obviously being the new capacity that they would require high grade of electrodes and China does not have the capability or does not have the technology to produce these grade of electrodes. So definitely either us from India or from Japan like has to go and sell in China and this thing could definitely again lead to a tight demand in supply situation for at least next 3-4 years. I just wanted to know if you agree with those things or...?

Ravi Jhunjunwala: Yes. I already said that in the opening remarks that we have been talking about China coming more and more into electric arc furnace over the last 5 or 10 years. But it didn't happen because the mere dynamics of China was that they needed something like 20-30-40 million tonnes of additional scale year-after-year. And then you need that kind of additional steel year after year, the only option that you have is to put up large glass furnaces and now it was already known to everybody that blast furnaces are probably the highest polluters in the world and everybody also knows that electric arc furnaces is the most environment friendly method of producing steel. So now that China has risen to this fact of environment concerns, I am sure Rahul you must have seen a report this morning, I am forgetting which company it is, but there is big report which came in this morning only where they are saying because of the Chinese winters they have already started a second round of this environment issue and there are couple of provinces mentioned in that report which we have not touched up till now and now they have started going into those areas also which were not touched up till now. So this is what we have been hearing for the last 2-3 months that come the winter months and this drive against pollution and environment will become more and more severe and this seems to be happening.

Rahul Murkya: Sir, last question if I may squeeze in. In our slide we have mentioned that companies like Auto Combo, AK Steel and Republic Steel have started introducing electrode surcharge. So just

wanted your comment. Is this the beginning or would it be followed by other steel players as well? What is your view on this?

Manish Gulati: See, all these people like AK Steel and Auto Compos and there are some companies who have come up with this surcharge because of rapid rise in electrode prices and the reason for that is that whatever contracts they have with their customers, they cannot increase their price, so we are just putting another surcharge for the additional cost of per tonne of steel making which they have to pay because of electrodes. So that they can just bifurcate and justify the rise in prices in their existing contracts. So that is why they are putting kind of a surcharge and it may be followed if electrode pricing goes like this, it may be followed by other big companies also.

Rahul Murkya: No, sir basically what I was trying to understand like steel being a commodity there will be single price for the steel, right? It would not matter whether the steel is coming from electric arc furnace or the blast furnace. So the consumers who are buying from these players I mean, are they ready to pay that extra surcharge to these players and then shifting toward blast furnace?

Manish Gulati: You see, I feel exclude China, the electric arc furnace constitutes 45% of the world steel production. So whatever this \$35 or \$40 whichever surcharge they are putting, so far of course their customers are paying to them, but again it is an interplay between what is iron ore and coal on one side and scrap and other input on the other side, but they are doing it then, I think they are very well getting these surcharges.

Moderator: Thank you. The next question is from the line of Rahul Jain from IIFL Wealth. Please go ahead.

Rahul Jain: I would like to know one thing is that if major portion of the sales of HEG is from export, in the export market does the price are fixed on long term basis or a spot basis because we understand the prices are remaining in the range of \$20,000 to \$25,000 per tonne? My second question is, Graphite India and HEG are the only two producers and they form 20% of the global production of industrial graphite, so the valuation between these two companies in spite of showing a better result by HEG then graphite is still large. So is it something different I want to understand from management perspective, thank you.

Manish Gulati: See, your first question about export and domestic market is absolutely right, I mean we have been predominantly exporting about 65%-70% of our production every year and the balance in India. And as far as the pricing is concerned it doesn't matter. I mean the pricing India is the part of the world market and the pricing in India is no different than what it is abroad. Today there is hardly any duty, maybe there is a duty of 2%-3% of imports. So if we start charging a higher price in the domestic market the customer is always has an option to import, import at a lower price if he gets it. Having said that, what was end of your first question, you were talking about the percentages and then...?

- Rahul Jain:** I said that the export prices as per the various published report is running between \$20,000 to \$25,000 per tonne.
- Manish Gulati:** You are right. We have also seen those kinds of prices, but we cannot say that this is the normal spot price. I mean there could be some contracts which are happening at those prices, but there are very few, but the spot price is not really, this 20,000 or 25,000 is not really the base for a spot market. But yes to that extent you are right, the deals are happening from time to time. Some deals in one country, some deal in some other country, but they cannot be taken as the base. I mean you cannot take 20,000 or 25,000 dollars as the base of spot prices, they are much lower than those.
- Rahul Jain:** Right. My second question is first time in the history of this industry, the HEG has shown better results in the quarter than graphite. I think the valuation again these companies deal to companies are very large. So management perspective on that?
- Raju Rustogi** See, one thing I hope you understand that Graphite India's shared denomination is Rs. 2 per share whereas in our case it is Rs. 10 per share. In terms of valuation, it is a factor of accumulated profit over a period of time and the net worth in the books of each company. Now Graphite India is 10 years senior to HEG Limited in terms of having incorporated and so their accumulated results and profits are higher and hence their book value is higher and hence valuation.
- Rahul Jain:** Right but the capacities are almost there, 10%...
- Raju Rustogi** No, the capacity in India is same as ours or similar to ours but they have an additional plant in Germany which is over and above their capacity in India. So if we see as a group their capacity is slightly higher than us.
- Ravi Jhunjunwala:** It is a very difficult question to answer and to compare because the locations are very different. So we have certain advantages with the main being the fixed cost because as we say that our plant is the largest plant in the world under one roof, advantages, they have certain advantages of being located in a place where their major plant is in Durgapur which is very close to the port. So they have that advantage that their imports and exports of electrodes attract lower logistics cost compared to us. Then there is another major difference is they have another division. I think it is a pipe division which is highly profitable. It is more or less like a monopoly kind of a product. So it is not been easy to compare any two companies. So what one has to really compare is one operation of that company with another operation of the country. But in any case we are not there to compare, to talk about somebody else's result. So we will rather stick to what we know about ours.
- Moderator:** Thank you. Next question is from the line of Jimesh Sanghvi from Principal Mutual Fund Please go ahead.

Jimesh Sanghvi: Sir, wanted your thoughts on basically the needle coke prices in the second half as we have pre-negotiated them. So in terms of percentage if you can share what could be the percentage increase compared to the first half in terms of needle coke cost? Secondly on the margins front, are the margins a bit different from domestic vis-à-vis exports or they are largely the same. So maybe if you can reply on these two and probably and I have a couple more.

Ravi Jhunjunwala: See again to answer your first question first, in terms of percentage it is close to 80% to 100% from first half to second half, but again you have to also remember that like the electrode industry the needle coke industry has also been suffering the bad market. So their pricing of first half was in line with what the electrode prices were. So when we speak about low prices of electrode, we are now comparing with the low prices of needle coke. So over the first half to second half the increase is like between 80% and 100%. For future again we don't know. As I said we have committed up till March at a particular price. We really don't know what that number would be which we will know in the next couple of months. Your second question is about realization and contribution, as I just answered, for us India is part of the world market and the Indian prices are not much different than anywhere else in the world. And since we are more or less like a duty free country today, if the electrode prices in the international market where much cheaper than the Indian prices, then the customer can always import. But we would obviously not like to lose our domestic customer who had been very faithful to the Indian industry and so whoever has been buying from the Indian producers we would obviously like to retain them. So in short basically there is not much of a difference. I mean of course there is a cost involved when we export, in terms of logistics cost and all those things. But at the end of the day the contribution is not much different. Of course there will be a difference between set of customers in France and a set of customers in America and a set of customers in India, so to that extent yes, things are different but not much.

Jimesh Sanghvi: But that would not kind of force you to change market mix or something of that sort. You will try and maintain this percentage of 60:40 or something in terms of exports and domestics?

Ravi Jhunjunwala: Yes, we are more or less in that region of between 60%-65% exports and 35%-40% India.

Jimesh Sanghvi: Okay. So secondly on the needle coke front, generally the process of manufacturing electrodes is between 2 to 6 months. So when we report the current quarter numbers or probably say the third quarter number will it reflect the needle coke cost which was there in the second quarter, or will it be the needle coke cost which will be in the third quarter. So how does the margins compare on as we move ahead?

Ravi Jhunjunwala: See, since the process of manufacturing takes two months to six months, we can say the quarter three would have maybe good prices prevailing in Q2 of Financial year 17-18.

Jimesh Sanghvi: Okay. So that will still continue to be on the lower side in Q3? The actual hit of the 100% increase will largely hit in the Q4 numbers, right?

- Ravi Jhunjunwala:** Yes, you can say that way because it is a moving average that we use in our accounting systems. So definitely it will be lower and the Q3 and Q4 would be higher. But again as I said sequentially quarter-on-quarter our sales realization is also going up. We are depleting our low priced contracts quarter-on-quarter. So in terms of percentage it is coming down every quarter. So on the one hand while our needle coke cost will be higher in the fourth quarter, but that will be taken care of by the additional realization in the fourth quarter also.
- Jimesh Sanghvi:** Okay. Sir let me put it in a bit different way. Can we see that the current margins of 45%-46% which we have achieved this quarter is something which could sustain at least in the current financial year or probably it might taper of a bit from here on or improve?
- Ravi Jhunjunwala:** I think we should be able to maintain that.
- Jimesh Sanghvi:** That is pretty thankful. Secondly sir, couple of other things. On the expansion plan you said we can do it through debottlenecking. So will we have to take any plant shutdown at that point of time or probably it doesn't happen that way?
- Ravi Jhunjunwala:** No, we will not have to take any shutdown at all. These will be additional equipments and it will have nothing to do with the old ones, there will be no synchronization time.
- Jimesh Sanghvi:** Okay. So basically the production doesn't get affected in any which ways?
- Ravi Jhunjunwala:** No. We don't think so.
- Jimesh Sanghvi:** And sir lastly, as you said that currently there are no import duties or something in terms of importing electrodes. So with the kind of situation that most of the domestic steel companies are today especially the smaller ones, do you see any risk of an export duty or something getting imposed on electrodes. Is there any noise which is being made by probably the steel manufacturers because for them it is kind of almost a Rs. 2,500-Rs. 3,000 per tonne kind of a hit in the margin on a per tonne basis. So is there anything you have heard across from your Indian consumers anything of this sort?
- Ravi Jhunjunwala:** See obviously when the prices are going up, there is a shortage. Obviously everybody tries to defend themselves. And we were called by the Steel Ministry about 3-4 weeks back along with the steel people, but of course we have put our point across. We have shown them what we are doing in exports, we have shown them lots of high price orders which are higher than the domestic prices. So it is not that we are being unfair in the Indian market and we have been more friendly with our friends in America or Germany or France. As I said the pricing is not different, the pricing is not dependent on India or Europe or US, but while you spoke about having an impact of Rs. 3,000 to Rs. 4,000 per tonne on account of electrodes, we should also look at sales prices of steel, I mean where have they moved in the last 6 months. So more or less that offsets the electrode cost much more than the cost itself and at the end of the day that is what business is all about. You cannot predict everything in any industry. So somewhere somebody will win, someday somebody will win. So when the electrode prices had dropped to

\$2000, nobody asked us to come and explain to why are we making loses. So why should somebody complain if we are making money today. We don't think so. And given the current situation where India is part of the international community, international world, our balance of payment is in trouble. The government is going to do anything as severe as you have just said. Obviously they are not going to come in the way of fixation of prices between two commodities.

Jimesh Sanghvi: Right. But that is something of that sort in the iron ore industry which was kind of exported in a big way. So just kind of getting some sense out of that probably because electrodes is also something which in India we have to manufacture and most of them are exporting 50%-60%. So just trying to get your thoughts over that. So that was the main reason.

Ravi Jhunjunwala: I mean of course, there was a meeting and we put across our point of view. We give them all the data, all the export orders and everything what is happening, and I am pretty sure we have been able to convince them that it is an international situation. And the two Indian players are too small to make any impact in the international business in any case.

Moderator: Thank you. The next question is from the line of Karan Thakkar from PM Securities. Please go ahead.

Karan Thakkar: I had a couple of questions with regards to the domestic pricing of electrodes and that you mentioned prices and loss of somewhere in the range of 7000-8000, until 20,000-25,000 whatever hearing in the export market. So we have been someone in the steel industry who have been procuring these electrodes and we are hearing prices in the tandem which is much higher than the lowest 7000-8000 you mentioned. So wanted to understand is there any differentiation on the pricing based on the types of electrodes or sizes of electrodes, does it vary broadly or it is a small 5%-10% variance in per tonne basis.

Ravi Jhunjunwala: No. See, first of all let me clarify. I didn't say it is on the lower side of 7000-8000. I was responding to a question which said that somebody in the world is talking about \$7000-\$8000 and the spot prices are 20,000. So I said that we cannot take 20,000 as a base for these spot prices. I mean, yes some deals are happening at those prices, but again a couple of deals at those prices will not make it a normal spot price. So in response to that I said that spot prices are not 7000, not 20,000, they are somewhere in between. And they are different in different countries and they are different with different customers in different countries.

Karan Thakkar: And just one thing is if we are telling there is any grade of electrode in the same country, what is the variance? Is there any variance in the size of, if we are selling a different size or a different kind of specification of electrode, does the price per tonne vary majorly, or is it just a small variance when it comes to per kg or per tonne?

Ravi Jhunjunwala: No. As far as electrode producers are concerned. There are basically two grades, UHP and non-UHP.

- Karan Thakkar:** In UHP is the size of the electrode or is there any other further specification of UHP or that is about it?
- Ravi Jhunjunwala:** No, there is only UHP and non-UHP and historically there has been a small difference between the UHP and non-UHP because of the cost. But as I said because the whole development which is taking place is on account of China and China has been majorly into the non-UHP, so today there is a bigger problem and bigger shortages of the non-UHP electrodes. So that gap between UHP and non-UHP which existed 2-3 years ago but gap is now today becoming shorter and shorter because there is a bigger shortage of the non-UHP.
- Karan Thakkar:** And as far as the Chinese shutdown plants are concerned, is there any possibility of a revamp in any of those considering the prices are so high and any reconsideration from the Chinese government, is there any further understanding that we have no that?
- Ravi Jhunjunwala:** I mean, obviously that possibility will always exist but in this industry to restart the plant is not very easy and there is a reason why these plants have been closed and these plants have been extremely old, extremely outdated and extremely environmentally unfriendly. So unless the Chinese government reverses their stance 180 degrees, there is no reason to assume that some of these plants will come back. But yes, you are right, couple of these plants may just come back, but again if the capacity shutdown has been as high as 120-140 million tonnes of steel, as high as about 200,000 tonnes of electrodes, couple of plants coming back and introducing another 10,000 or 20,000 tonnes of electrodes and another some steel plants of 5-10 million tonnes coming back after a closure of 120, is not going to make a very major difference. And I was referring to one of these articles which just came in this morning from China. It is a report which has come from Platts which is one of the respectable names in the commodity sector which is talking about what we were told for the last two months, that in the winter months this restriction will become more and more severe. So this report has just come in this morning from Platts, saying exactly the same thing that the Chinese environment ministry has expanded their horizon and they have gone into some of those areas applying this closure norms where they are not touched in the last 6 months. So it feels that the situation could actually become worse.
- Karan Thakkar:** Right. And sir at the start of this year when the long term contracts were negotiated, what was the average negotiation price for the contracts?
- Ravi Jhunjunwala:** See, this is not a secret, I mean we have been talking about it, that our average price for last year, last year means 16-17 we are in the region of \$2,200 to \$2,400.
- Karan Thakkar:** So the renegotiation happened at the same price or was it another premium to that?
- Ravi Jhunjunwala:** No, until March-April this year there was no indication of what was coming in China and the current year long term pricing were discussed sometimes in the months of December-January-February. So all those prices which were committed for a long term where more or less in that region of last year.

- Karan Thakkar:** So as of this quarter we see that realization was \$3,600 dollars. So how much of quantity was sold at spot in the quarter two?
- Ravi Jhunjunwala:** See, that specific number we would like to discuss and disclose now, but all I can say and all I have repeatedly said during the last one hour is that on a quarter on quarter basis, our average realization will keep going up because we will be selling more and more of the new high priced quantities and less and less of those 2,200 – 2,500 kind of products.
- Karan Thakkar:** Okay and what is our usage of needle coke per tonne of graphite electrode manufacturing?
- Ravi Jhunjunwala:** It is one tonne per one tonne.
- Karan Thakkar:** And the Chinese graphite electrode manufacturers are not on the side of the ultra-high power, but are they consumers in China producing steel through EAF route using UHP grade or are they using the Cheap grades of electrode?
- Ravi Jhunjunwala:** No. There are some furnaces, the majority of the Chinese consumption is for non-UHP, but there are some large furnaces which should normally import and use UHP. In the past, they have been importing UHP because the Chinese have not been able to produce that. But lately because of the shortages they have to just make do with the Chinese UHP as they call.
- Karan Thakkar:** But sir as we hear and also discussed on the call that Chinese non-UHP grade electrodes have becoming really expensive and we are hearing this \$20,000-\$25,000, so in the current capacities of the EAF manufactures of China, if they replace it with UHP, is that doable, can they use UHP directly or it requires some changes in the plant structure?
- Ravi Jhunjunwala:** I mean, whether you use the non-UHP and UHP depends on the type of furnace, the kind of transformer, the capacity of transformers. So you cannot change the grade of coke, I mean that is fixed based on certain parameters.
- Karan Thakkar:** Okay, so even if the pricing comes at parity they cannot start accepting UHP even if it is.....
- Ravi Jhunjunwala:** You see, UHP is a much better product than non-UHP. So of course when they were using, where they are using non-UHP they can always use UHP.
- Karan Thakkar:** That is what I am asking.
- Ravi Jhunjunwala:** Yes. They can of course use it. But why would somebody do it. There is a shortage for both. So long as there is an availability of UHP at a cheaper price, compared to non-UHP why would somebody do it?
- Karan Thakkar:** So aren't the imports from India to China, I mean if India exports to China, is it cheaper in China to import UHP rather than using a non-UHP Chinese product which is going at \$20,000-\$25,000?

- Ravi Jhunjunwala:** Nobody is willing to export to China the real UHP electrode because China has not been importing those electrodes on a regular basis. So currently when there is an overall shortage of electrodes in the world, one would not like to give up your own regular customers who had been with us for a long time and therefore exporting to China.
- Karan Thakkar:** Okay. And on steel companies profitability of course there is a pass on and it is not a question if the electrode type is increased, they are certainly passing it on of course with a lag, but one concern is that are there any few customers of yours who are considering, if they have any fungible of capacities of induction furnaces also relieving the production through EAF route and shifting to that. So is that happening or that is not happening...?
- Ravi Jhunjunwala:** In India none of these electric arc furnace producers have induction furnaces.
- Karan Thakkar:** Okay. But outside India because the majority...
- Ravi Jhunjunwala:** Outside India these induction furnaces have been very prevalent in only countries like India and China.
- Karan Thakkar:** Okay. So developed countries don't have it?
- Ravi Jhunjunwala:** No. These are very outdated, very technology furnaces.
- Moderator:** Thank you. The next question is from the line of Pawan Sararf an Individual Investor. Please go ahead.
- Pawan Sararf:** Sir, am I right that 2 lakhs tonnes of capacity has been closed down in China and another 1.5 lakhs in outside China. So with the closure of these capacities, I mean this little coke and pet coke supply would be abundant now. There should not be any bottleneck for the raw material side as far as needle coke is concerned, going to the lithium sector, I understand hardly 10% to 15% as talked in the media is going there. So this closure of 3,50,000 tonnes of capacities overall, UHP as well as HP, this middle coke and pet coke supply would be enough going forward, first question sir?
- Ravi Jhunjunwala:** You see, needle coke capacity and electrode capacities of the world have been moving in tandem. In the last 2-3 years since the electrode market was not doing very well, obviously some electrode capacities got shutdown in the last 3-4 years. And the needle coke producers were also suffering because they were not able to find enough bias for the coke that they produce. So obviously they were trying very hard to find alternate use of needle coke in some other sector which they have now found. And you know lithium ion battery is a thing of the future but demand will probably keep increasing. So that is basically the reason why there is a shortage of needle coke and as I also said this refineries and this calcining companies of needle coke have to undergo a long maintenance of maybe 2 to 3 months every 2-3-4 years. So some of these coincided in the same year and obviously the markets were not very good. This was probably the right time for them to take all the shutdown, so which we did and obviously like

electrode industry they also had no idea that things were going to change so suddenly. So hopefully you are right, I mean next year if this maintenance shutdowns are not going to come back, then obviously to that extent, there should be enough needle coke available. Now the question is only price. We will see what the prices are, we have no idea today.

Pawan Sararf: The prices would both depend in sympathy with the finished product price of electrodes rather than the supply constraint, I feel so. Am I right?

Ravi Jhunjunwala: It could be.

Pawan Sararf: And this China shutdown of 2 lakhs tonnes, there they used to have our non-UHP brand. So there is a big surplus over there for the pet coke?

Ravi Jhunjunwala: No, that production, that grade of coal does not require pet coke. That grade of production does not require needle coke. So it is a totally different kind of coke which is available in China in abundance.

Pawan Sararf: That is almost a waste for those people now, that type of coke?

Ravi Jhunjunwala: I am sure there must be different application for that coke, but that coke cannot replace needle coke.

Pawan Sararf: In question sir, like in your last concall in August, you talked about because of scarcity in the market of graphite electrodes, some of your long term customers they started approaching you, that time only for the next year contract. So any thought on that, have you entered any, started the process or you will start up only as a regular this thing in December-January?

Ravi Jhunjunwala: No, for the time being we are not making any long term commitments and as I said we have covered our needle coke at a fixed type of price up till let us say March. So we would not like to and we are in no position we are currently to give a long term contract without knowing what the coke prices will be and that clarity will only come to us in the next couple of months.

Pawan Sararf: And are you finding any pressures from the raw material suppliers like in the graphite electrode prices are going up and I understand some renegotiation talked about why the peer company have taken place in the industry. So are you facing any problems with the raw material as well, in the renegotiations?

Ravi Jhunjunwala: If it is good for graphite electrode industry, it is good for the raw material suppliers to the graphite electrode industry as well and we are seeing prices going up for the Indian input and raw material as well.

Pawan Sararf: So as talked about our peer industry, have we been able to set the renegotiations in the old contracted price as well?

- Manish Gulati:** I did notice that our peer talked about some renegotiations. Probably that is in the Indian market because globally it is more difficult and yes, basis in India the peer has done it. We are also trying it .So that is where you are catching that word from. But it is not a universal thing that you could renegotiate everything you had, that is not possible especially in the global context.
- Pawan Sararf:** That is why our peers are doing that, so we being in the same industry we could have done some renegotiation on the Indian counterparts somewhere, I am not going for the absolute numbers and all, just asking that...
- Ravi Jhunjunwala:** See, unfortunately we cannot share the name of the clients which are being hinted at, but yes, there has been 2 or 3 cases of renegotiation in India with major clients. I will stop here and I won't divulge which ones are they. That is how our peer mentioned that in their concall and in their report.
- Pawan Sararf:** And as far as I understand the renegotiation process and thought came to mind only sometime in July end. So this would have extended to August. So the effect of renegotiated prices if at all, you would have seen in the September quarter one and a half months only. And again the old contracted quantities with the renegotiated price will still affect three months in the current quarter?
- Raju Rustogi** Let me put it this way. See the clients or client which we are talking about, it was the prices went up to valid till half year. So it was like H1 and H2, so that is what Chairman Mr. Jhunjunwala said that for this season we will see the prices sequentially going up, so this is part of that. That is all I can say. So it will start from 1st October, so it is H1 and H2.
- Ravi Jhunjunwala:** Let us not get into names and let us not get into these specifics, I mean this call is not for that purpose.
- Moderator:** Thank you. The next question is from the line of Devang Sanghvi from ICICI Direct. Please go ahead.
- Devang Sanghvi:** Most of my questions are answered but I have question on for an enquiry for next year. Have we started any enquiries for our volume, I know needle coke would be a key factor, but any early trends of utilization what we can guide for next year FY19?
- Ravi Jhunjunwala:** See, as I said earlier we have started discussions but as I said also that our needle coke prices will be known on in the next 2-3 months time and we are committed, we are covered at our old price up till March shipment. So without that obviously we are also not very keen to go ahead and give a price. So in the current scenario in most of the cases of large customers what we have been doing is that we have been talking and committing a particular tonnage on both the sides on a quarterly basis with the prices being frozen, let us say for the first quarter and the prices for the second, third, fourth quarter to be mutually discussed closer to the event.

- Devang Sanghvi:** Right sir. So it will be fair to assume that we can have similar 80%-85% utilization for FY19 also because demand is there and if we have sufficient amount of needle coke we can do at 85% utilization?
- Ravi Jhunjhunwala:** If sufficient needle coke available yes, we could go beyond 80%-85%, but currently we don't know what that situation will be.
- Devang Sanghvi:** Sir, my second question is on the spot end contract mix, means I don't want a specific number, but is there any early thought on including the spot percentage for next year or any thoughts on those please?
- Ravi Jhunjhunwala:** Next year there is nothing like spot or there is nothing like long term contract. As I said we are only committing a particular quantity for the next 12 months, without the prices. So there is no long term pricing in any case.
- Devang Sanghvi:** My third question is regarding the European capacities which was shutdown, 1,60,000 in the last 3 years. Can I any of those capacity commence through with higher prices, the European capacities because that won't have any alarming concerns.
- Ravi Jhunjhunwala:** You are right. I mean that is obviously theoretically very impossible. But see in Europe, we are starting a plant which was closed maybe 2-3-4 years ago is not very easy. It is a technology oriented industry, the people, the labor, the engineers they would all be gone and in lot of cases in Europe especially the environment considerations are very strong. So once you closed the plant you have to actually raise most of the plant and you have to clean up the environment by digging 2-3-4-5 meters of the ground and things like that and in lot of cases these areas have been cleared up and sold to some real estate person and who his already building an office complex or a residential complex. But yes, we haven't heard of it, but theoretically yes, it is possible for maybe 1 or 2 these graphite plants to restart.
- Devang Sanghvi:** But the capacity should be only like 25%-30% of the initial capacities or that is too early?
- Ravi Jhunjhunwala:** Most of these plants which have been closed in the last 5 years had this capacity of 25,000-30,000 tonnes.
- Moderator:** Thank you. The next question is from the line of Deepak Kapoor who is an individual investor. Please go ahead.
- Deepak Kapoor:** I just have two very basic questions to do with more technology of producing graphite electrodes, pardon me for my if I am very naïve about the question. So the needle coke is taken in graphitized and you produce graphite electrodes, you add the binders, etc. I am right about that, right?
- Ravi Jhunjhunwala:** Yes.

- Deepak Kapoor:** So I want to know can't graphite itself, natural or synthetic graphite be used to make graphite electrodes for this period?
- Ravi Jhunjunwala:** It is not, these are totally two different products.
- Deepak Kapoor:** So it is not possible at all?
- Ravi Jhunjunwala:** No.
- Deepak Kapoor:** Thanks. The second question is that since you mentioned most of the Chinese capacity which is shutdown on non-UHP, if they want to come back and set up UHP capacities is getting technology a challenge?
- Ravi Jhunjunwala:** That is the main reason, why they have not been able to. I mean, China produces, Chinese capacity let us say is as much as the rest of the world is. Their entire constraint is that they can only do non-UHP and they don't have the technology.
- Deepak Kapoor:** So you have to develop this in-house that is how you become **(91:30)**__ or somebody who can buy the technology but there is nobody to sell it right now, how is it?
- Deepak Kapoor:** See, as I said in this field of electrodes, we were absolutely the last new entrants way back in 1976. So in the last let us say what 24 and 17 last most than 40 years. So there has been on new entrant in this field anywhere in the world. It is a question of getting the right technology from the right company and over the last 5-7 years the number of electrode producers have also reduced because the demand was much more than the capacity and lot of these plants had to be closed. So the number of players who have the technical knowhow have also come down substantially. We got the technology for the first 15-17 years from a French company. We got the technology for the first 15-17 years from a French company Graphite India similarly got it from an American company and that is how we contribute the UHP and nobody, none of the existing graphite players went to China and get the knowhow.
- Deepak Kapoor:** Great. My last question is that theoretically if needle coke continues to remain in tight supply, is there an alternate backup plan to produce graphite electrodes from an alternate coke input?
- Ravi Jhunjunwala:** No. Currently there is nothing I mean needle coke is the only right raw material let us say to produce UHP electrodes and like electrodes, it is the same issue with needle coke, there are only 3-4 players in the world.
- Moderator:** Thank you. That was the last question. I would now like to hand the conference over to Mr. Ravi Jhunjunwala for his closing comments.
- Ravi Jhunjunwala:** Thank you friends for spending so much of time to understand the business of electrodes and I look forward to speaking to you in the next 3 month's time and with probably a better set of numbers that you just saw. Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of HEG Limited that concludes this conference call. Thank you for joining us and you may now disconnect the lines.