



Q4 & FY17 Investor Update Presentation

HEG Limited – Profile

- ❖ HEG Limited is a leading graphite electrode manufacturer & exporter Globally.
- ❖ The company produces two grades of graphite electrodes - Ultra High Power (UHP) & High Power (HP) - used in producing steel through the Electric Arc Furnace (EAF) route.
- ❖ Exports approximately 60% of its production to about 30 countries around the world.
- ❖ Diversified customer portfolio –supplying large proportion of our volumes to top 20 steel companies of the world.
- ❖ Graphite electrodes manufacturing plant (capacity of 80,000 tons per annum) located at Mandideep in Madhya Pradesh - is the largest single-site facility in the world
- ❖ Captive power generation capacity of around 76.5 mw (2 thermal power plants & 1 hydro power plant)

Global Steel Industry

- ❖ World Steel Association (WSA), reported a growth of 5.2 % in world crude steel production to 551 million tons for Jan – Apr'17.

Crude Steel Production	2014	2015	2016	Change 2016 vs.2015	2017 (Jan - Apr)	Change 2017 vs.2016 (Jan - Apr)
World	1670	1615	1628	0.80%	551	5.2%
World without China	848	816	820	0.50%	277	5.7%
China	822	799	808	1.10%	274	4.6%

Growth Areas	% ↑	% of world pdn
Asia	5.1	69
N. America	5.1	7
Middle East	11.8	1.8
EU	4.5	10.1
S. America	11.5	2.5
Africa	12.5	0.8
Decline Areas	% ↓	% of world pdn
CIS	-0.3	6

- ❖ Worldsteel forecasts global steel demand to increase by 1.3% to 1,535.2 Mt in 2017, following growth of 1.0% in 2016.
- ❖ In 2018, it is forecast that global steel demand will grow by 0.9% and will reach 1,548.5 Mt.
- ❖ China's steel demand is expected to remain flat in 2017 and then decline by -2% in 2018.
- ❖ Steel demand in the developed economies will increase by 0.7 % in 2017 and 1.2 % in 2018 while in emerging and developing economies excluding China is expected to grow by 4.0% in 2017 and then 4.9% in 2018.

Indian Steel Industry

- ❖ Crude steel production was 97.385 (mt), a growth of 8.5%
- ❖ Exports up by 102.1% to 8.244 mt. Imports declined by 36.6% at 7.427 mt
- ❖ India emerged as a net exporter of total finished steel during FY 2016-17
- ❖ Consumption of total finished steel saw a growth of 3% at 83.93 mt
- ❖ National Steel Policy 2017 charts out a roadmap to enhance per capita steel consumption to 160 kg by FY31 (from 61 kg in 2015)
- ❖ Latest announcement by the government on preference for India made steel in all government funded projects with 15% value addition in production would provide a ready market assurance to Indian steel at least for 20% of the demand.

China's pollution crackdown & Graphite electrodes Scenario

- ❖ Central Government of China, in the beginning of 2017 identified some major industries as Highly Pollutant. It directed Provincial Governments for closure of some identified highly polluting industries.
- ❖ This includes sizable number of Induction furnace based steel units. The scrap used by these furnaces is now available in abundance for EAFs making them more competitive.
- ❖ Coal & Iron Ore prices have gone up, increasing the costs for BOF and making EAFs more cost effective.
- ❖ Billet exports from China have now come down immensely, helping many EAFs outside China.
- ❖ Environmental crack down has also effected many Graphite producers in China, leading to closures creating a shortage of electrodes within and outside China.
- ❖ All of the have factors have created an increase in demand of electrodes and shortfall in supply globally.
- ❖ The raw material costs for graphite electrodes have gone up steeply and expected to rise further leading to increase in prices of electrodes.

Financial Snapshot (under Ind.AS)

in Rs. Crore (except EPS)

	Q4 FY17	Q3 FY17	Q4 FY16	FY17
Net Operating Income	267.19	251.25	186.00	896.02
EBITDA*	30.65	30.65	11.04	87.78
EBITDA Margin	11.47%	12.20%	5.94%	9.80%
EBIT	12.43	12.33	(9.09)	13.87
EBIT Margin	4.65%	4.91%	(4.89)%	1.55%
PAT	(3.86)	(3.38)	(27.11)	(50.10)
PAT Margin	(1.45)%	(1.35)%	(14.57)%	(5.59)%
EPS	(0.97)	(0.79)	(6.77)	(12.54)

* EBITDA includes Other Income

Segmental Performance – Graphite Electrodes

in Rs. Crore

	Q4 FY17	Q3 FY17	Q4 FY16	FY17
Net Sales	258.81	242.65	181.20	870.25
Export (% of sales)	62.63%	63.10%	57.19%	60.00%
EBITDA Margin	2.15%	(0.40%)	(7.80)%	(1.78)%
EBIT Margin	(3.50)%	(7.05%)	(17.58)%	(8.71%)

- Capacity utilisation at around 80% during the Qtr. Order book healthy.
- Graphite electrode prices seems to have bottomed out, but input prices increased significantly during Q4.
- Improved working capital cycle and overall debt position reduced by Rs 100 cr vis a vis FY 16
- Focus on controllable cost, yielding results.

Segmental Performance – Power

in Rs. Crore

	Q4 FY17	Q3 FY17	Q4 FY16	FY17
Net Sales	58.42	64.04	43.70	216.93
EBITDA Margin	48.26%	47.72%	54.23%	47.61%
EBIT Margin	42.71%	43.07%	46.64%	41.74%

- Revenue lower in Q4, as hydro facility closes in end Feb 17.
- EBIDTA margin higher due to higher no. of REC's sold vis a vis Q3.
- Overall robust performance in 16-17, majorly used for captive usage.

Future Outlook

- ❖ Higher production through EAF route envisaged, as the cost balance tilts in favor of EAF over BOF route.
- ❖ Recent Industry consolidation in Graphite Electrode Industry to improve capacity utilization going forward.
- ❖ Electrode sale prices expected to increase with the enhanced capacity utilisation levels in the Industry.
- ❖ Electrode market likely to stabilize at higher utilization levels during FY 17 vis a vis FY 16.
- ❖ The scale and speed of developments in China both in steel and graphite electrode industry will continue to affect global markets and steps taken by the local government during FY 17 towards reducing pollution, are expected to be long lasting.

Thank You



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