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World Winning Quality

Q4 FY14 Investor Update Presentation

HEG Limited - Profile

HEG Limited (henceforth HEG) is a leading graphite electrode manufacturer & exporter

HEG produces two grades of graphite electrodes - High Power & Ultra High Power - used in manufacturing steel through the Electric Arc Furnace (EAF) route

Exports over 75% of its production to more than 25 countries of the world

Diversified customer portfolio - ArcelorMittal, Nucor, POSCO, Emirate Steel Ind, Dongkuk Steel, Severstal, SAIL, Tata Steel, Jindal Group etc.

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 77 mw (thermal power - 64 mw & hydro power - 13.5 mw)

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Global Steel Industry

- Global steel output in 2013 was up by 3.5 % to 1.6 billion tonnes. In the previous year, the production was increased only by 1.2 per cent due to global demand slowdown
- World Steel production without China has been stagnant in last few years. Whatever growth has come, has been coming in China only
- However, in the first two month of 2014, the World figure without China is also showing a growth.
- Chinese steel growth of just 1.7% is the lowest in a long time which is also a cause for concern.
- Stronger than expected growth in Euro zone, though highly constrained by heavy debt and un-employment.
- As per estimates, world steel consumption would increase by 3.1% in 2014 over 2013 and 3.3% in 2015 over 2014
- In India steel demand expected to grow by 3.3% to 76 Million tons in 2014 against an actual growth of only 1.8% in 2013.

Graphite Electrodes Market & EAF

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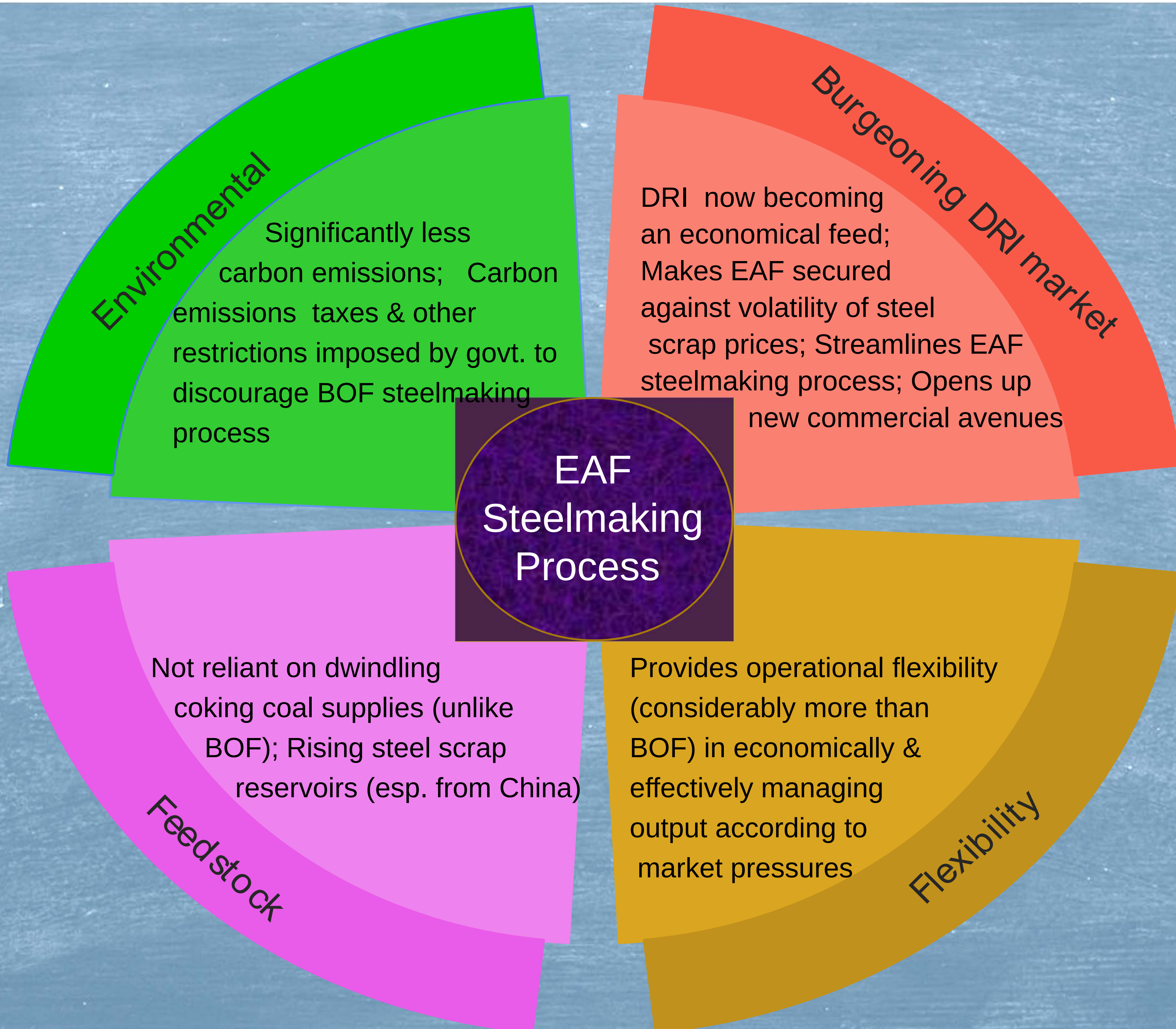
- Graphite electrodes find their biggest industrial use in Electric Arc Furnace (EAF) used in steel plants to melt steel scrap
- Graphite electrodes market has a current market size of over 1.1 million tonnes per year (US$ 3.5 billion); with the steel industry being the largest consumer
- The demand for graphite electrodes is therefore sensitive to steel production via EAF
- Efficiency, feedstock flexibility and environmental advantages make EAFs a much more attractive investment for future capacities
- Share of EAF in the global steel production is currently around 30%
- EAF's share of crude steel making likely grow beyond 2015-20 to 37% by 2025 and BOF steelmaking would decline to 63% .

Source: World Steel Associatio

Factors leading to rise of EAF capacities



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Financial Snapshot (over last 5 quarters)

In Rs. Crore (except EPS)

	Q4 FY13	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14
Net Operating Income	446.3	235.27	301.93	428.19	501.43
EBITDA*	72.92	40.63	53.27	88.54	85.31
EBITDA Margin	16.34%	17.27%	17.64%	20.68%	17.01%
EBIT	58.16	24.12	35.43	69.40	66.14
EBIT Margin	13.03%	10.25%	11.73%	16.21%	13.19%
Forex gains/(loss)	2.58	(15.32)	(9.20)	(2.33)	1.48
PAT	35.14	(9.32)	5.06	44.31	46.56
PAT Margin	7.87%	N.A.	1.68%	10.35%	9.28%
EPS	8.80	(2.33)	1.27	11.09	11.66

* EBITDA includes Other Income & excludes Exceptional Items

Net Operating Income

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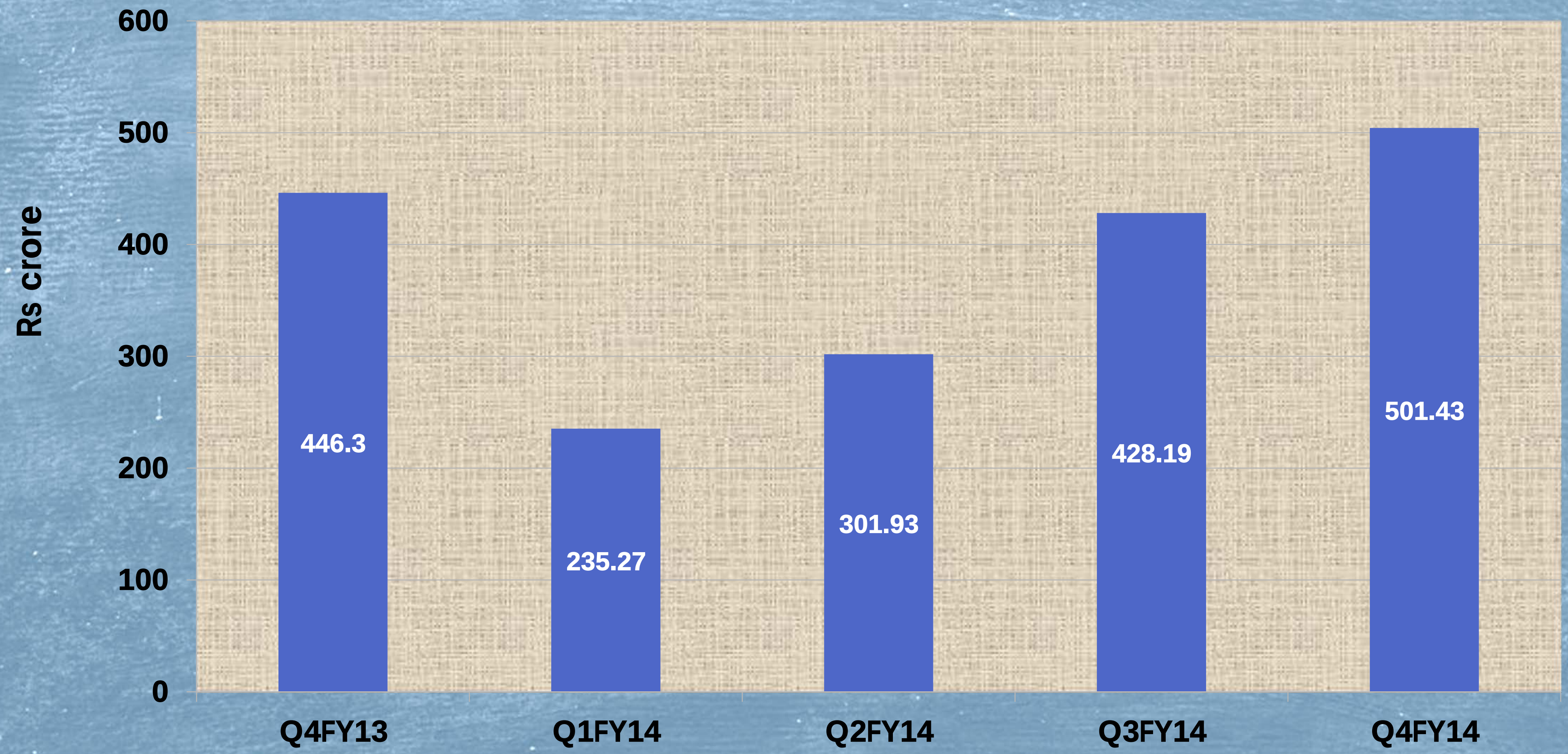
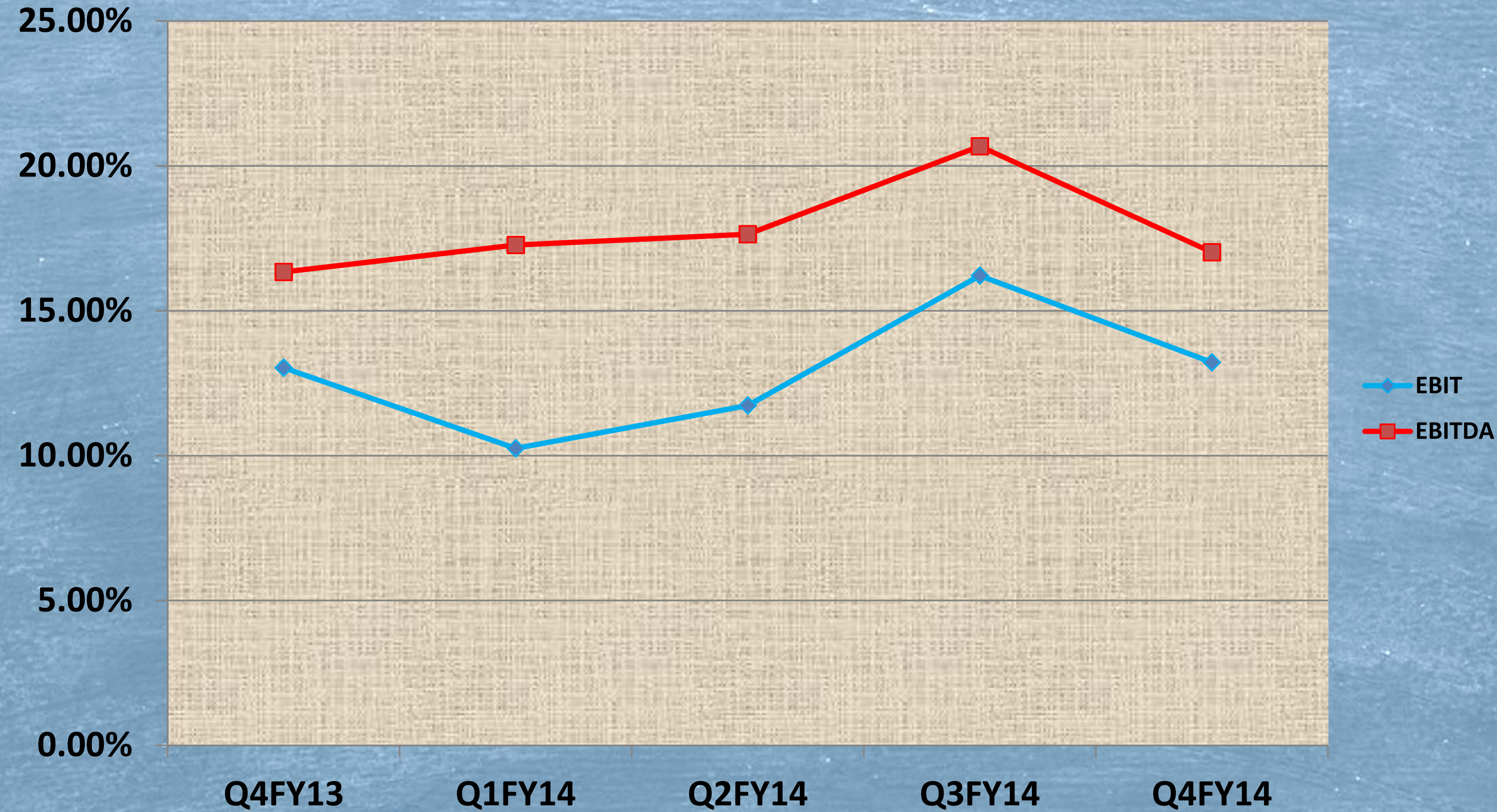


Note - EBITDA includes Other Income & excludes Exceptional Items

EBITDA & EBIT MARGINS



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PAT and Forex Income

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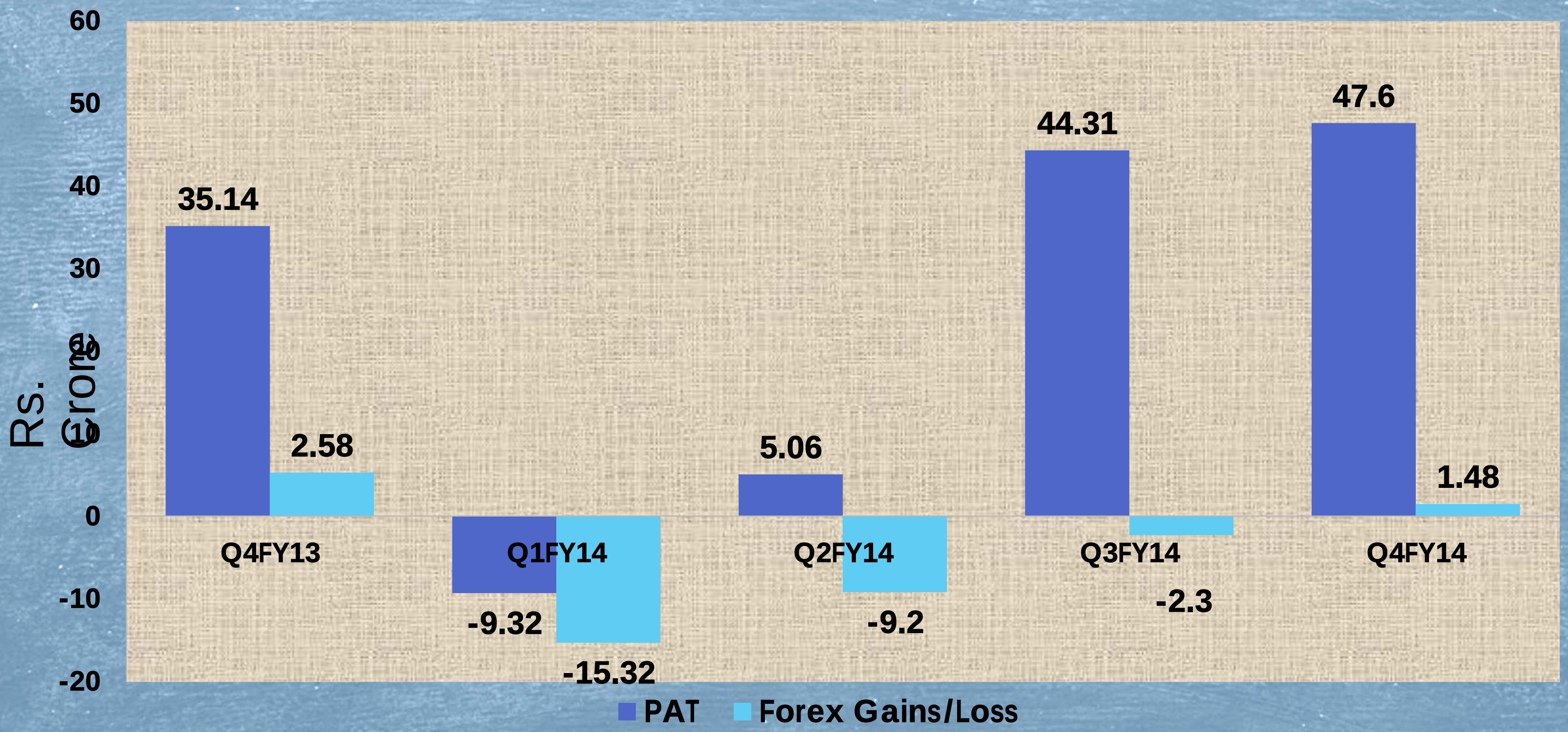

PAT Margin in last 5 Quarters

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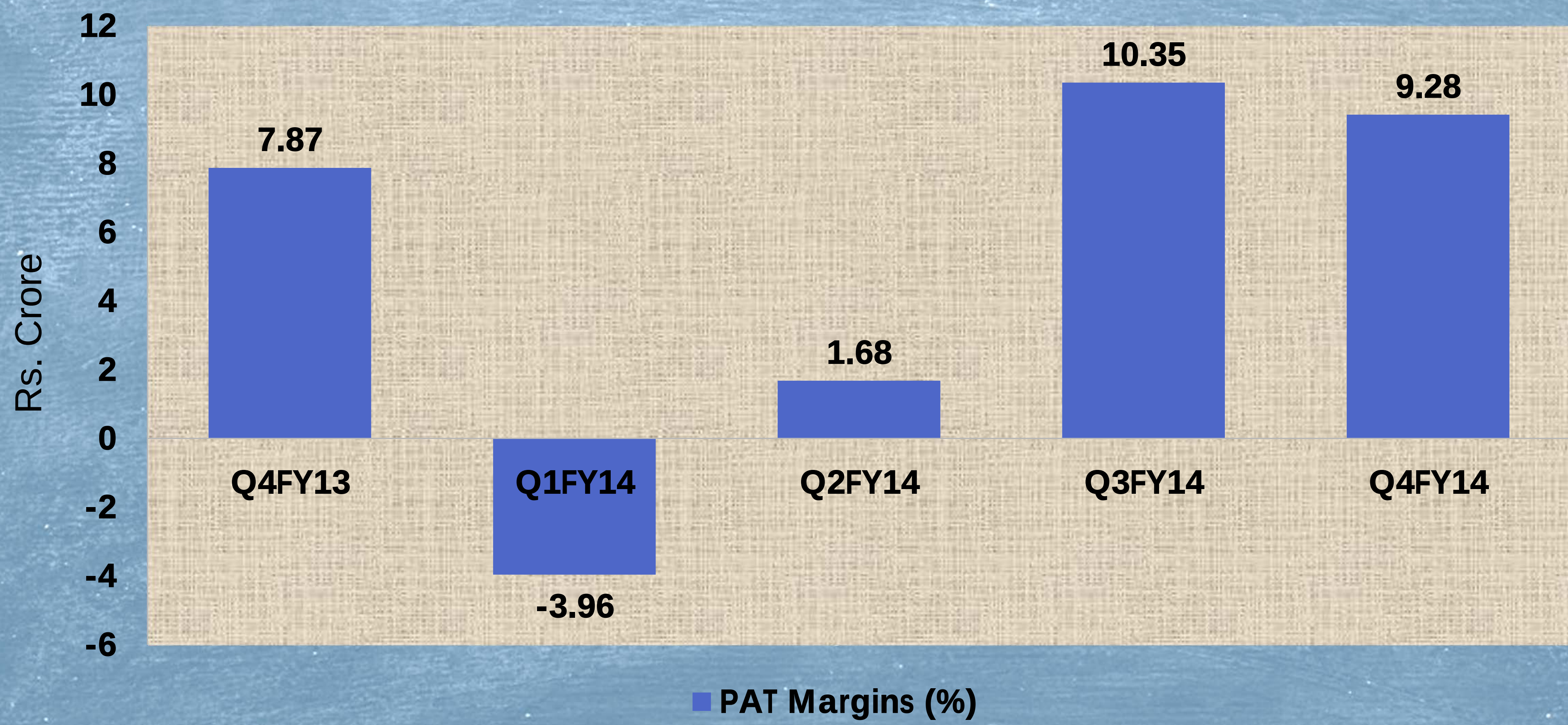

Segmental Performance – Graphite Electrodes

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In Rs. Crore

		Graphite Electrodes	
	Q4FY14	Q3 FY14	Q2 FY14
Net Sales	494.31	414.55	294.58
Export (% of sales)	84%	80%	77.3%
EBITDA Margin	9.7%	12%	10.6%
EBIT Margin	6.6%	8.4%	5.9%
Capital Employed	979.97	1044.46	1028.73

- Capacity utilisation in excess of 95% during the quarter.
- Graphite electrode prices inching towards stabilization. However rupee appreciation during the Qtr, affected margins.
- Unprecedented increase in domestic input prices, could not be passed on to the customers.
- Repayment of long term loans improved capital employed in the business, to add strength to financial ratios in the coming year.

Segmental Performance – Power

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In Rs. Crore

		Power	
	Q4FY14	Q3 FY14	Q2 FY14
Net Sales	69.16	71.78	41.72
EBITDA Margin	52%	51%	42.8%
EBIT Margin	47.1%	46.6%	37.8%
Capital Employed	190	201.17	208.86

- Reduced net sales in Qtr4, as operations in hydro facility are affected by seasons.
- Higher volume of sale of REC's (Renewable Energy Certificates), improved bottom-line.
- Best ever coal ratio achieved, indicating improved efficiencies, adding to the margins.
- Downward revision in allocation of linkage coal to the captive generators, to affect margins going forward.

Future Outlook

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- Overall optimism about the global steel industry would push the growth of graphite electrodes Industry outlook.
- Double digit growth in the Q4 of 2013-14, reflects on robust order book position. Stable outlook, as envisaged in the ensuing year, to bring consistency in operations and in turn, improved performance.
- Pressure on Needle coke - the key raw material, continues and prices, likely to remain subdued in FY15.
- The recent closure of certain manufacturing facilities announced by global players, offers opportunity for HEG's to raise its market share in those regions.
- Recent efforts of the Govt. towards resumption of mining activities in Iron Ore and Coal, likely to improve prospects, for the steel Industry in India.
- De-leveraging plans and working capital controls, to help reduce financial costs, going forward.

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Thank You

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