



“HEG Limited Q4 FY 2017 - 2018 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the HEG Limited Q4 FY 2017 - 2018 Earnings 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 phone. Please note that this conference is being recorded.

I would now like to hand the conference to Mr. Ravi Jhunjunwala -- Chairman and Managing Director, HEG Limited. Thank you and over to you, Sir!

Ravi Jhunjunwala: Good Afternoon, friends and welcome to HEG's Fourth Quarter 2017 - 2018 and Last Year's Annual Results Conference Call.

As shared with you on our previous concalls in early 2017, the Chinese Government decided to crack down on some of the highly polluting industries due to serious environmental concerns which resulted into closure of unaccounted Induction Arc Furnaces totaling about 150 million tonnes. This I am quoting from the latest communication from World Steel Association. Besides these 150 million tonnes of Induction Arc Furnaces, the Chinese Government has committed to close down an additional 150 million of Blast Furnaces over the next five years at the rate of 30 million tonnes per annum between 2016 and 2020. These closures have led to a large drop in steel exports from China to rest of the world. This has dropped from 108 million tonnes in 2016 to 75 million tonnes in 2017, which is a drop of about 30% in one year.

In Q1 2018 on an annualized basis these exports have fallen further to 60 million tonne, which is a drop of staggering 44% over 2016. As you are aware, about 45% of the total steel in the rest of the world, is being produced by the Electric Arc Furnace route and with Chinese exports coming down sharply to these countries coupled with a large growth in Steel production in rest of the world last year. The Electric Arc Furnaces Steel production registered a robust growth of about 8% to 10% in 2017 over 2016 and it is expected to grow at similar levels in the current year.

Total World Steel production including Blast Furnaces went up by about 5.3% in 2017 and 4.1% in January - March 2018. This clearly shows that EAF production has outgrown the Blast Furnaces production in the last 18 months or so.

This has happened at the backdrop of closure of six graphite plants between 2013 and 2015 in the western world. These capacities accounted for more than 20% of the total Ultra High-Power Electrode capacities of the world. So, all this additional shift to the Electric Arc Furnaces production in the world coupled with closures of these six plants Graphite plants has obviously lead to a sharp increase in the demand for Electrodes and the current demand-supply imbalance in the western world.

It is reported that in China 105 new Electric Arc Furnaces with a total capacity of as much as 66 million tonnes per annum have either commenced operations or will commence operations

by the second-half of the current year. This would lead to a very substantial increase in demand of Electrodes in China over the next few years. And I am sure, they are taking steps to increase their own Graphite capacities to meet this additional demand especially when the Western world is already facing a shortage and would not be able to meet this additional demand of China.

However, these Electrode capacities, new capacities which should come up in China would primarily be geared to make non-UHP Electrode which would have no impact on producers like us and others in the world whose primary production is that Ultra High Power. And as we all know, China does not have the technology for Ultra High-Power Electrodes and companies like us have not been competing with China anywhere in the world. It is also reported that China has increased their Electric Arc Furnace production from about 48 million tonnes in 2016 to 70 million tonnes last year. This is a whopping 46% increase in just one year. And the total steel production through Electric Arc Furnaces is likely to reach 100 million tonnes by end of this year. So if you look at 2016 data of 48 million tonnes going up to 70 million tonnes in early 2017, in end 2017 and by the end of 2018 this number is likely to be 100 million tonnes. So which is a 50 million tonnes additional Electric Arc Furnace Steel capacity in China.

In order to reach a level of 20% of Steel through Electric Arc Furnace by 2020, which is what the Chinese Government Policy is this is an announced policy in their documents. They will be adding another 60 million tonnes capacity in 2019 and 2020.

Just to clarify, I have been throwing a lot of numbers. So this is likely to happen by 2020, so which would mean from 48 million tonnes in 2016, it is likely to be 100 million tonnes by end of this year and by 2020 which is only two and half years away, this figure is likely to be 160 million tonnes. So this is a threefold increase in about four years' time. Now, obviously, this kind of growth in Electric Arc Furnace has never been seen in the past.

Now coming to our own country, our Steel production in India grew by 6.2% to 101 million tonnes. We just surpassed Japan to become the second largest producer of steel in the world and in Quarter One 2018, it has posted a further growth of 3.7% to 27 million tonnes over the same quarter last year.

Friends all these developments augur well for our industry which is directly connected with the Electric Arc Furnace industry. We thus expect a strong demand growth for our products to continue in the future. We are fully booked for both domestic and export sales for this quarter and the next quarter and we will open up our order books of Quarter Three and Quarter Four sometime in June.

As strong demand for Graphite Electrode continues Needle Coke supply remains tight, as part of the Needle Coke has now found a new application in Lithium-Ion Batteries mainly in China and every Electrode producer in the world is not able to find enough Coke to operate at full capacity. The good news is that as we speak, one of the largest producers of Needle Coke is

de-bottlenecking its capacity which will enable them to increase their production by about 50,000 tonnes. This was likely to be on stream in the second-half of 2018. This should help the Graphite industry to some extent from quarter four onwards to add to their capacity utilization.

Coming to our own production, as against our capacity utilization of 80% for the full year 2017 - 2018, the capacity utilization in Q4 was 84%. We have debottlenecked some of our capacities in the plant in the meantime which should allow us to operate in the high 80s in the current year.

In summary, I would like to state that we continue to remain optimistic about our Company's prospects given a trend of more and more Steel being shifted to Electric Arc Furnace in the entire world. As I said earlier, China is on way to add 110 million tonnes of Electric Arc Furnace capacities between 2016 and 2020 which will create a huge demand of Electrodes in China and if Chinese Electrode companies are not able to restart some of their recently closed Electrode plants due to environmental issues China could open up a new huge large market for companies like ours. Given that we do still produce about 20% of non-UHP Electrodes and while rest of the Graphite producers in Japan and U. S. has stopped making non-UHP Electrodes they are doing about 100% of UHP, the Indian companies continued to produce 20% to 25%. So, what I am trying to say is if China is adding 110 million of Electric Arc Furnace it would mean an additional demand of about 250,000 tonnes per year. So it is quite possible that this will open up new avenue for companies like us.

With this, I would now request Mr. Rustogi to take you financials and then we will be very happy to answer any questions that you have. Thank you.

Raju Rustogi:

Good Afternoon, Friends. For the quarter ended March 2018, HEG recorded net operating income of Rs. 1,292 crores as against Rs. 843 crores in the previous quarter, a jump of nearly 53% quarter-on-quarter and nearly 384% on a yearly basis for the same quarter.

EBITDA including other income we stood at Rs. 563 crores in the previous quarter has increased to Rs. 955 crores, a jump of nearly 70% quarter-on-quarter nearly 3,000% year-on-year for the same period.

Company reported a net profit of Rs. 634 crores in Q4 as against profit of Rs. 342 crores in the previous quarter. Company has reported its highest ever turnover and profit after tax during financial year 2018, we stood at Rs. 2,758 crores as turnover and Rs. 1,081 crores as net profit for the year 2017 - 2018.

Now 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. There has been significant change in the industry scenario as a result of China development which was just now explained by our Chairman.

Corresponding to the increasing trend of sale price in the recent past, we are witnessing a sharp increase in the prices of almost all the primary raw material. However, we have been able not only to maintain the previous levels of margin but improve on them.

The net sales and also the segment results in Power segment are lower in Q4 as we have been able to negotiate a mutually beneficial term with the Government utility company and replace part of our high-cost self-generated power using by the lower cost utility power. This step has not only reduced the volume of captive generation and transfer to Graphite but also reduce the average realization in power segment as the revenue in power segment is booked based on corresponding rate of power as defined by the state-run utility. This is termed as transfer pricing in the accounting parlance.

Besides, as you all know our Hydro facility is rain dependent has not run at all during Q4 for want of adequate rains in the region. This step of the high-cost power replaced by utility power has reduced revenues and bottom-line in the power segment of our results. But this has actually had a very favorable impact on the overall power cost of Graphite Electrode making.

The increase in annual employee benefits expense over financial year 2017 is primarily on account of provisioning for the profit related commission payable to the CMD of the company under contractual terms of its appointment. Increase in annual power and fuel cost, over financial year 2017 is attributable to one-time provisioning for a legal case as well as increased level of production and also substantial increase in international crude oil prices.

The finance cost during the quarter under review was primarily on account of accrual and advance payment of Income Tax of the Company. Now as per Indian Laws, this is payable well in advance before even realizing our revenues. So, for the quarter under review, we have paid advance tax which resulted into borrowing of working capitals from the bank.

Now total debt however as on today as we stand we are on 11th of May, we are zero debt company. This entire debt of Rs. 298 crores as it stands on 31st March stands at zero as of now. The Board of Directors has recommended a highest-ever 500% of final dividend which along with interim dividend of 300% paid in February 2018 clearly demonstrate that our management wants to reward the investors for these good times.

With this, I would open the forum for questions, please.

Moderator:

Thank you. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. We take the first question from the line of Aditya Wagle from Aequitas Investment. Please go ahead.

Aditya Wagle:

Yes, just had a question about your raw materials. I think, raw material increases quarter-on-quarter have been pretty benign. So has it been due to we selling out of older inventory and can we expect higher prices going ahead?

- Ravi Jhunjunwala:** I think, Mr. Rustogi should take that question.
- Raju Rustogi:** Okay. See, there are two factors for this raw material cost that are booked to P&L. One is our manufacturing process takes two and half month to convert raw material into finish products. So if the raw material increase happens in month one, the impact of cost happens in the third month following the first month. And second is we also are carrying inventories at least because of our import procedure as well as manufacturing process, we always inventory worth two months of output in our stocks. So if you add this two month along with 2.5 months of production cycle there is a lead and lag of 4.5 months between the increase of prices and the impact in our P&L.
- Aditya Wagle:** Right. So sequentially, we can expect a sharp increase going ahead?
- Raju Rustogi:** Yes, you should.
- Moderator:** Thank you. We take the next question is from the line of Yash Shaha from Unicon Investment. Please go ahead.
- Yash Shaha:** Sir, actually I had my question on the raw material prices volatility. Do we expect the same volatility and the prices going very significantly high in the coming year also?
- Ravi Jhunjunwala:** Yes, it will be.
- Yash Shaha:** Okay. And sir, in the Slide #10 of the presentation, its written that company is evaluating other options to expand the capacity for Graphite Electrodes for expansion of Graphite Electrodes and another Carbon adjacent. Any other color, can you give on the statement?
- Ravi Jhunjunwala:** See, this is about the future outlook that we are seeing. The company is generating cash flows and the obvious utilization of this cash would be in the same line of business that would our first priority and Carbon adjacencies is you know something which is coming in the research and development area of Carbon and Carbon related material. So these two things, we are actively evaluating for the times to come.
- Yash Shaha:** Okay, sir. Sir, my last question was on the out of the total revenue how much is from High Power Graphite Electrodes; Non- High-Power Graphite Electrodes?
- Ravi Jhunjunwala:** See, as I said, it depends on the market conditions, it depends on the costing, it depends on the margins. And easy answer to that is you can say about 20% to 25% of our production normally is into the non-UHP. But again, let me clarify, it is not obligatory for us to produce non-UHP. So, the day we see there is a larger demand on the UHP side which is a higher price Electrode going into better furnaces will switch. So basically, it is a matter of the margins.
- Moderator:** Thank you. We take the next question is from the line of Pawan Saraf from Nagarmal Saraf Securities. Please go ahead.

Pawan Saraf: My first question is like you said, EAF Steel capacity is going to increase from roughly 50 of last year's, 2016 to roughly about 160 million tonnes by 2020 in China and they basically use non-UHP that is lower grade. So I was thinking whether these European companies creating an EAF facilities now, they cannot shift to non-UHP any technical problems there? If China is using non-UHP in EAF Steel Plants and come up with big capacity in non-UHP Electrodes, then what would be the position like European companies cannot they shift from UHP to HP?

Ravi Jhunjunwala: No, they can I mean they easily can and as I just answered, we switch every month, we switch every two months our proportion of UHP, non-UHP which is basically dependent on the margin. And as well as the European and the Japanese companies are concerned, they were also producing 15% - 20% of non-UHP but they vacated this market about 10 years ago because obviously it is low grade of Electrode and just to give you an example. Let us say a 24 and 26 inch Electrode, one piece will make one tonne, if you do a non-UHP small 14 inch - 15 inch Electrode, you may have to produce six pieces or eight pieces for one tonne. Where a product is being sold on a price of per tonne basis if you produce a UHP big size Electrode, you handle one product, one piece and in the non-UHP, you will end up handling about eight pieces to ten pieces depending on the size and given that our production process is about eight months to ten months. So these Electrodes move from first process to second process until they have finished at the sixth process. So there is a lot of movement and there is a lot of to and froing of the semi-finished Electrodes happened in the process. So obviously, given the labor cost, disadvantage that the Europe, the Japanese companies have. So it does not make sense for them to handle eight pieces or nine pieces or ten pieces to get let us say \$10,000 versus producing one piece and get the same \$10,000.

Pawan Saraf: And second question is how much one metric tonne of Needle Coke produces in terms of UHP and in terms of metric tonnes finished product?

Ravi Jhunjunwala: It is equal one-to-one.

Pawan Saraf: One-to-one, very good. And you talked about sometime back that a couple of days back on TV about the legacy contracts for Graphite Electrodes, can you throw a little light on legal contacts for raw material Needle Coke?

Ravi Jhunjunwala: See, to repeat what I said on the television was that the legacy order basically meant that as you know the cycle of Electrode sales use to be on an annual basis up till about a one year ago. So for 2016 and part of 2017, a certain amount of Electrode were already and committed for a 12 months or a 15 month period at those low prices which existed in January, February last year. But as we speak now, our Q4, we still had about 20% - 22% of our sales out of this legacy orders or let us say the low-price orders which in the current quarter is practically going to be zero.

Pawan Saraf: I understood that on a TV itself. I was coming to another thing. Like this Needle Coke for how long you have entered into the contracts and all that was my basically....

- Ravi Jhunjunwala:** See, just like Electrode the Needle Coke was contracted for 12 months at the beginning of the year every year. But as the scenarios changed in the last 12 months - 14 months just like the Electrode suppliers are now quoting maybe on a quarterly basis maybe on a maximum six-monthly basis, so the similar shift has taken place from the Needle Coke side. So there is no 12 months contract now. So, there is a commitment of a certain volume for 12 months' but the prices are negotiated and decided every six months.
- Pawan Saraf:** Sir, recently China's Cimm Group Chairman, Mark Shujun, he talked in some media about grass route plan somewhere around Poland going forward. Can you throw some light on that?
- Ravi Jhunjunwala:** See, as I told you in my opening remarks. China does not have the technology for Ultra High Power. And so China is basically into production of non-UHP Electrode because of the technology. So they would have to I mean, I am not defending this question. But I am saying that if they are adding 110 million tonnes of Electric Arc Furnaces and most of them are likely to be non-UHP small furnaces with small Electrodes. So obviously there will be a demand of close to 300,000 tonnes in China. Part of it is already in the market. Part of it is being added this year and another 60 million tonnes is going to be added between 2019 and 2020. So they will require an additional production of about 300,000 tonnes of Electrode. So will be very surprised that they have would have 105 new Electric Arc Furnace without lining up as to where the Graphite Electrodes are going to come from. So they would have to add very large capacities of Electrode whether they do in China or they do it in Poland, or they do it anywhere else that they like but otherwise they are not going to waste this 110 million tonnes of capacity that they are going to add.
- Pawan Saraf:** And sir, on an average what is the difference between domestic prices and international prices?
- Ravi Jhunjunwala:** See, that is something we cannot disclose. I mean it is an information which we should not talk about. But I can only tell you that we are selling every ton of our product in India, in domestic at the lower price than what we get in exports.
- Pawan Saraf:** And in India as well you enter into those three months, six months contracts?
- Ravi Jhunjunwala:** Yes.
- Moderator:** Thank you. We take the next question is from the line of Vivek Choriria, Individual Investor. Please go ahead.
- Vivek Choriria:** I had just two questions about on the supply side. You had mentioned in the past few concall that close to 20% of the capacity had come out to the supply chain. I mean what is the risk of those capacities coming back online? Because I mean those are idle capacities so I mean if the Needle Coke is available do you think there is a big risk of that supply coming back in and hampering the current benign prices?

Ravi Jhunjhunwala: See, I will answer this question in two parts. The first, as I said six Graphite plants got closed they were mostly owned by SGL which is now acquired by SDK or by GrafTech and they were all in the western world. And at least at three places out of those six the whole thing has been raised to the ground. So all the equipments were gone, everything is gone. Out of the rest three, I mean you can imagine if you have closed high technology plant three years ago and in addition to high technology equipments that we are talking about a lot of constructed furnaces go into the production of Electrodes. So there are several structures which go into producing these baking furnaces and graphitizing furnaces and all. So it is not easy to I mean obviously, if you have closed the plant forever, three years, four years ago, nobody is going there. Nobody is taking care of whether these conditions are good or bad or whatever it is and in most of these cases, the moveable equipments which are sellable have been sold. So these plants, the land probably exists maybe some equipments do exist, you cannot take away a furnace which is a civil furnace. So I cannot say that there is no question of any of three plants coming back. But it looks highly improbable and the fact is that the six plants which were closed, were closed because at that moment they were not competitive, and they had picked up those plants which were extremely old. Some of these plants could have been 70 years - 80 years - 90 years old. So I will be very surprised if one of these 3 plants which are closed now where very little things exist as far as equipment is concerned to come back.

Moderator: Thank you. We take the next question is from the line of Abhishek Gupta from Yes Securities. Please go ahead.

Abhishek Gupta: Just want to understand on the supply side risk, you had mentioned two things, one is I think 150 million tonnes capacity addition in China which basically translates into somewhat 300,000 tonnes of additional Graphite Electrode capacity required that is number one. Now, outside China where UHP Electrodes are typically used. What is the additional increase in Steel capacity and the concomitant/associated increase in Graphite Electrode expected? Number one, that is my first question. Number two, for this, what is the addition on Carbon Black that is required? Let us say all of this capacity is to be met, this demand needs to be met. And I believe there is just two or three suppliers for this and how is that getting mitigated giving the fact that there is a supply side risk in this industry along with the fact that there is a threat of substitute that the same Carbon Black is used in I think a lot of mobiles, etc. now a days. And number three, just to understand the margins, in 2017, you were working with your old what you say the old contracts. So effectively you did an EBITDA margin of around if I am not wrong in FY 2017 of around negative minus 2% and I think, FY 2018 would have been, FY 2018, the overall margins are around 40% - 45%. So based on that and FY 2018 would have had let us say 50% of the old contract and 50% of the new contracts and FY 2019 would be overall new contracts. So can you just confirm whether these workings are okay or is there something that I am missing here? Thank you.

Ravi Jhunjhunwala: Okay. Answer to your first question is we spoke about 110 million tonnes of new Electric Arc Furnaces capacities in China and not 150 million tonnes that you spoke about. Your second question was that how much is this number? What is this number in the rest of the world? See,

Electric Arc Furnaces production in rest of the world has more or less stagnated around 375 million tonnes - 380 million tonnes for the last 10 years to 15 years, it has not changed at all and because of the closures of the induction and the Blast Furnaces in China, the resulted impact immediately was that their exports steel which were 110 million tonnes suddenly dropped to 70 million tonnes. So, which means arithmetically somebody else in Turkey or India or America or Europe or someplace in the western world, somebody had to produce 40 million tonnes of additional steel in his own country, which he had not which he had stopped or is capacity utilization was down to 50% - 60% - 70% and out of that 40 million tonnes about 45% to 50% of the world Steel is produced through the Electric Arc Furnaces. So 40 million tonnes of Steel exports dropped in 2017, it is very safe to assume that this additional 40 million tonnes was produced in the world somewhere and that is what is shown in the total Steel numbers which grew by about 8% to 10% in the Electric Arc Furnaces last year. So to make it very simple I mean as I said Electric Arc Furnaces outside of China has been in the region of about 375 million tonnes for a number of years. So another 40 million tonnes which probably got produced in the western world to replace the Chinese exports which got down, if you add that 40 million tonnes on the 375 million tonnes, we are talking about the same 9% or 10% number. So let us say 40 million - 45 million tonnes of additional Electric Arc Furnaces got reduced in the world. And secondly, in addition to Steel, finished Steel, China has also been exporting lot of semi-finished Steel and that semi-finished steel exports dropped in 2017 by more than 70%. So if the exports dropped by 70% from China to rest of the world obviously the rest of the world will have to produce that steel which did not come from China. So again 45% of that goes into Electric Arc Furnace. So there is no reported figure I mean we are only talking from our experience and our knowledge of this industry but this is what has led to supply-demand imbalance and at a time as I said Electrode the capacities in the world has already come down by 20% between 2013 and 2015. Talking about our raw material, you spoke about Carbon Black our raw material is called Needle Coke. And this is a Needle Coke is a product which is produced through oil and as you know the oil prices are going up so that is a separate issue. But this is also like Electrodes. It is a fairly high technology area where the technology is controlled only by three companies in the world, one in U. S. and two in the Japan. And this Needle Coke over the last three years - four years has been abundant supply because the Electrode market was not enough, and the Electrode market was not large enough to consume all the Needle Coke of the world. So the largest producer of this three which is this American company they work with Chinese Lithium Ion Battery guys over the last three years - four years and in these four years, they made Needle Coke replaced some of the existing raw material with the Lithium Ion Battery we are using. So, a part of the Needle Coke which should normally have come to the Graphite industry in current times was diverted to China to for Electrode but for the Lithium Ion Batteries. So that is the development which took place over the last three years - four years and the Graphite industry realizes in the last year, there was not enough Needle Coke left. And going forward, as I said, basically this American company that they are talking about they are in the process of debottlenecking their plant to the extent of about 50,000 tonnes and this should be in operation by August, September, October of this year. So that will give some relief to the Graphite industry. This will add another 50,000

tonnes of Coke in the world. Now, your last question was about EBITDA. So I will request Mr. Rustogi to answer that question.

Abhishek Gupta: How much is one tonne of Coke translate into one tonne of Graphite Electrode, is it like?

Raju Rustogi: Yes, it is one-to-one.

Ravi Jhunjunwala: Could I request repeating the question on EBITDA?

Abhishek Gupta: Question was basically I think what sir had said in most of FY 2018 you still left with the old contracts where I think your pricing of the Graphite Electrodes were at the lower level. Now, is there any kind of indication of what is the current pricing that you are getting for Graphite Electrodes, is that probably number one? If not, just want to understand what is the EBITDA margin in FY 2017, FY 2018 and how much of FY 2018 contained the legacy contracts and when will the legacy contracts end in FY 2019?

Ravi Jhunjunwala: I think, you have missed this answer, you probably joined the call later. But in our FY 2017 - FY 2018 or let us say the last quarter of 2017 – 2018 Q4, the legacy orders were about 20% - 22%, so about 20% - 22% of our Electrodes in Q4 were at those legacy or low-price orders let us say. And going forward in the current quarter onwards we have more or less completed all our sales and dispatches of the low-price orders. So going forward, it is going to be a practically 100% at the new prices. And talking about EBITDA, I think our whole year EBITDA percentage is about 63% and we are hoping, we are guessing that this number has to increase in the next couple of quarters because we do not have any legacy orders to be serviced anymore.

Abhishek Gupta: So exactly that means the EBITDA margin for FY 2019 could be upwards of 80% - 90%, we do a weighted average of the fact that 22% of FY 2018 was legacy contracts, 78% was new contracts?

Ravi Jhunjunwala: No, it is not such simple arithmetic because our production costs are also going up. Our Needle Coke which is in serious short supply that is also going up every three months, every six months. But now I can tell you, I mean, again let us not go into very specific numbers, in specific figures, but all I can tell you is that in the next two quarters which means quarter one and quarter two of current year for which we have 100% booked as far as our entire production is concerned. We are pretty confident that these margins are going to increase because we are aware about all our cost, we have our coke in the stock at a particular price and we have all the committed orders for the next six months.

Abhishek Gupta: Okay, sir. Just to understand because supply situation is also important and you did not talk about the Japanese company, you do not buy from the Japanese suppliers at all?

Ravi Jhunjunwala: No, we do. We, of course, do.

- Abhishek Gupta:** And the Indian supplier who supplies like Reliance or Asian supplier like Saudi Aramco, etc.
- Ravi Jhunjunwala:** No, they do not make Needle Coke, it is again, a technology issue. The technology of producing of Needle Coke rest with only three companies, two in Japan, one in U. S.
- Abhishek Gupta:** And to set-up this very high capacity kind of expansion, set up Needle Coke, it is a high entry barrier business, right?
- Ravi Jhunjunwala:** No, entry barrier for a newcomer is the technology basically unless one can get the technology from the existing three players. So that is the entry barrier and of course, if the Graphite market continues to be as strong as it is now I am sure one of the these three companies, the Needle Coke suppliers would be thinking like us to put up a new Needle Coke plant. But again, it is not easy, in terms of timing my guess is that a new Needle Coke plant will take at least two years to three years' time. Like a new Electrode plant will take a minimum of four years, I mean you cannot put a new Greenfield plant today in less than 3.5 years - 4 years.
- Moderator:** Thank you. We take the next question is from the line of Rahul Murkya from Jefferies. Please go ahead.
- Rahul Murkya:** Sir, could you just give us if possible the average price for Needle Coke in the last financial year?
- Ravi Jhunjunwala:** See again, we not like to talk about the specific numbers. I will answer it in the way that I have heard the other company's answer. In the first-half of 2017, it was in the region of \$500 - \$600. It doubled in the next quarter's like \$1,000 - \$1,200 and it has doubled in the first-half of the calendar year of 2018. So depending on the quality and the grade of Electrodes that one is talking about, you can say the Needle Coke prices will be in the region of \$2,500 to \$3,300 - \$3,400.
- Rahul Murkya:** Okay, fair enough.
- Ravi Jhunjunwala:** Which is an increase from \$500, only about a year ago.
- Rahul Murkya:** Okay, fair enough. Sir just wanted to understand, these Needle Coke contracts would now be quarterly or they are half-yearly contracts?
- Ravi Jhunjunwala:** It is both. It depends on these three companies - four companies, who are the suppliers of the Coke. So it is six months and three months both. Again, it really depends on which company you are talking about.
- Rahul Murkya:** Okay. The basic reason why I asked this question is because you have mentioned that next two quarters you are fully booked. So you have price in your Needle Coke prices as well in those contracts or there could be a possibility that assumptions which you have made for your Needle Coke would go different and what Needle Coke you procure?

- Ravi Jhunjunwala:** No, our current contract let us say which is six months contract ends in June, so obviously we know the price of that. So whatever price we are paying for the current purchase we are aware about that and given that it is a product which is imported which takes six weeks to eight weeks to reach. And given that the process of Electrode making is about eight weeks to ten weeks. So obviously there is a enough stocks and the pipeline or at the plant being an imported raw material. So if you are talking about the first two quarters of Coke cost we are aware about it because part of that is still coming at January, June price and part of that coke which we still had for let us say from December onwards, so it is all a mix, I mean it is not very easy to explain that but it is a mix of \$1,000 and \$2,000 and the currently let us say \$3,000. So it is a basket of different three or four prices. But yes, when we are talking about our entire sales being already booked, so obviously we are aware about the average price that we are going to sell in the next six months but on the other side, we are fully aware of the cost of Needle Coke.
- Rahul Murkya:** Fair enough, sir. Sir, another thing just wanted to check, we have a lot of steel companies that they are seeing 2015 to 20% rise in the domestic on the Graphite Electrode prices. Can you just clarify like have you taken any price hike starting from the 1st of April for the domestic contracts?
- Ravi Jhunjunwala:** See, all our domestic sales are currently happening on a quarterly basis. So obviously the new quarter which started from 1st of April there was a price increase.
- Rahul Murkya:** Sir, could you just give a rough indication, how much it was?
- Ravi Jhunjunwala:** Okay, you are asking me something which I cannot answer.
- Rahul Murkya:** No, problem, sir. Sir, the next question would be like going forward the cash flows which we are generating we would be having huge cash. So any plans like can you just give idea about any dividend payout policy that we would have in place or anything of that sort?
- Ravi Jhunjunwala:** See, as Mr. Rustogi just said we are a debt free company today. So, we neither have a long-term debt nor we have short-term debt or working capital debt. Although we can borrow at 5.5% in rupee I mean there is an exports subvention rate for the rupee. So exporting companies can borrow at 5.5% in rupee where there is no foreign exchange risk either. So currently, we are not borrowing anything against that also. And so, treasury management is now going to become extremely important for us and we are in the process of organizing our office to take care of the treasury management. So, in the last about two weeks - three weeks, certain amount of cash flows have been generated which are going into treasury and currently, we do not have any immediate plans for any diversification or a large investments. We are basically managing cash and as you have seen, we are 300% in interim dividend, we are now used to 500% final dividend. We are basically maintaining our let us say for the last 10 years if you look at our payout, it has been between 30% - 35%. So the reason the board considers to give 500% final dividend was in line with whatever we have done in the last five years. So it about 31% - 32%. So for the time being our intent is that we will keep on doing whatever we done in the last 10 years and we will conserve cash on the balance sheet but yes, we are looking at a couple of

very high growth opportunities which are available in the related space of Carbon. There are a couple of areas which require a lot of R&D and which require a collaboration with somebody in the world. So we are looking at some of these areas where not a lot of capital but is more or less going to be in the same line I mean we know Carbon. So in the Carbon area, we are looking at some investments here and there. But these are very-very early stages, and these are areas which are extremely high growth areas.

- Rahul Murkya:** And sir, any buybacks on the cards?
- Ravi Jhunjunwala:** I will have to ask my Board to answer you.
- Rahul Murkya:** Okay. Sir, final question to Raju sir, if you can just highlight this statement like employee benefit expenses has increased because of the provisioning of profit related to commission payable to CMD. So how much percentage was I mean can he just give some color on this point?
- Raju Rustogi:** Yes, this is 2.5% as per the terms of appointment of CMD of the company.
- Rahul Murkya:** Sir, 2.5% of what it would be? I mean, 2.5% of...
- Raju Rustogi:** Of the profit under Companies Act there is something called remuneration payable to the managerial person under the Companies Act Section 198 and Section 197. It is all payable under that section as the calculation provided in that section.
- Rahul Murkya:** Okay. So 2.5% of profit would be the additional amount which is sitting in employee benefits apart from that...
- Raju Rustogi:** Employee benefit as a provision.
- Rahul Murkya:** Other than that, that would be on a regular basis our employee expenses?
- Raju Rustogi:** Yes.
- Ravi Jhunjunwala:** No, but Mr. Rustogi we have to clarify this because I think a month ago or six weeks ago, there was announcement scheme...
- Raju Rustogi:** Okay, I think I will add to it. We have an incentive scheme based on profit for employees as well. So, the employees have also been given incentive based on profit during the financial year 2017 - 2018 and that is no policy, but it is management decision driven. So this year we have paid an incentive for profits earned by the company which is over and above the normal salary.
- Rahul Murkya:** Sir, can you just give some color like what run rate should we take going forward like would 4Q be the best?

- Raju Rustogi:** Rahul, you cannot define a policy for such matter because these are not as per the law. Now, the management based on the performance of the individual decides on how to incentivize and improve productivity. So it is a call which we take based on the performance on ground.
- Ravi Jhunjunwala:** To answer your question, you spoke about debottlenecking. I mean as I said in my opening remarks, we have debottlenecked the plant and going forward from a current level of last 12 months average was about 80% which increased to 84% in the last quarter and going forward, in the whole of current year, we do expect to run the plant at in the high-80's. But again, the problem to go beyond high-80's or 90 is not the market but it is Needle Coke and I guess, every Graphite producer is facing this issue. Nobody is able to go beyond 85%- 90%. And that is where we have certain advantages in India because we can produce 15% - 20% of non-UHP and that does not require Needle Coke.
- Moderator:** Thank you. We take the next question is from the line of Anup Lal from Dalmia Securities. Please go ahead.
- Anup Lal:** Sir, I wanted to ask you one, just I was going through the balance sheet and data and then what I find the sales have increased nearly by threefold and you have profit of...
- Ravi Jhunjunwala:** You see that the prices have come up from \$2,000 to five digits. Every number has to increase. So I have a 60-day cycle to get my payment or 90 days cycle, earlier it was \$2,500 currently it is in five digits. But obviously, the payment terms obviously not been relaxed, I mean in fact from an average of four months - five months which use to be the case two years ago or one years ago, now we are down to 90 days and probably the things continue the way they are, they could go to 70 days - 75 days.
- Moderator:** Thank you. We take the next question is from the line of Ashish Gupta from Parang International. Please go ahead.
- Ashish Gupta:** As you know like in China is India also moving from Blast to Electric Arc Furnace production as well?
- Ravi Jhunjunwala:** Yes, India has. I mean if you look at the recent expansion of JSPL or the other general company JSL, they also put up a new plant in Odisha (Orissa), they are all Electric Arc Furnaces. And the second reason about Electric Arc Furnaces is that it is smaller than Blast Furnaces. I mean a typical Blast Furnaces in today's modern age will not be less than 8 million tonnes to 10 million tonnes. And unless a country is growing so fast that it needs another 8 million to 10 million of steel, they are not going to build a capacity of 8 million to 10 million tonnes which is what typical Blast Furnace would be. But when it comes to Electric Arc Furnaces you can choose whatever sides you want, and you can do a 1 million tonne plant, you can do a 3 million tonne plant, so there is a lot of flexibility in case of Electric Arc Furnaces.
- Ashish Gupta:** Right, sir. And sir, how equipped are we for the switch in terms of raw material and associated infrastructure?

- Ravi Jhunjhunwala:** Switch in terms of what?
- Ashish Gupta:** Infrastructure and rest of the amenities which we require to set-up in ES plant in India, raw material?
- Ravi Jhunjhunwala:** As I said, we do produce about 20% - 25% of non-UHP which is produced out of the Indian Coke and for the balance 80% - 85%, it is all Needle Coke.
- Moderator:** Thank you. We take the next question is from the line of Subrato Sarkar from Mount Intra. Please go ahead.
- Subrato Sarkar:** My question is also inline of previous one. Just one small understanding from the future capacities like now after this increasing price, so now we are entering into a more short-term dynamic contractor. So in that case, is there a possibility since we are entering into a short-term contract, the receivables amount as a percentage of sales goes down previously from five months - six months, can we expect two months - three months of receivable in that case?
- Raju Rustogi:** See, I would like to answer this question. Mr. Sarkar, it is a factor of credit of our sales in the market for the product. So even if the contract is done on a quarterly basis the payment term is based on market practice. So, it will not result into even the contract is three-months' delivery, the payment term is irrespective of that.
- Subrato Sarkar:** Sir, since like we are such a good position in terms of like because of this year, we cannot sir improve the payment terms to some extent?
- Raju Rustogi:** No, I think that I think you are right. We can improve the payment terms and they are already improved from earlier four months - five months to today three months. So we will take a conscious call because the market we are a long-term player and we do not want to change the market practices based on one year or two years of exceptional circumstances.
- Subrato Sarkar:** Okay, I got your points. So more or less like we would like to continue which is same payment terms.
- Raju Rustogi:** For our long-associated customers, definitely there has to be a consistency. For spot market, you can charge based on today's need of the market. So more or less we would like to go on a practice which can be sustained for a longer time.
- Subrato Sarkar:** Okay, I got it, sir. Just a one legacy question, maybe you have addressed it. But still for me to better understand this to some extent. When I was following your company like one year back maybe three months prior to Graphite price start moving up very abruptly because of a certain situation like we were not being able to like predicted this situation. And what I mean to say is that sir only within two months - three months situation has changed drastically. I know plant close and all those things but like some movement of change in the situation I would say very

it was really fast. So can you help me to understand why within a short time period such a change has taken place previously and basically?

Ravi Jhunjunwala: You know China takes very-very quick and very abrupt and very sudden decision. China being a giant when obviously it starts moving, everything starts shaking. So suddenly one day they woke up to this fact of the environment and they said these 150 million tonnes Blast Furnaces have to be closed and unfortunately for the Graphite industry this happened in December - January 2016 - 2017 which is when we normally negotiate a 6 months or 12 months contract for that calendar year. So if this has happened, if China had taken this decision in October - November of 2016 then the prices and everything that you are seeing today would have been seen in the whole of 2017 because all the new contracts are discussed in November, December, and January when there was absolutely no indication to anyone about this such a huge move. I mean supported into perspective. I mean we are talking about 150 million tonnes of the steel plant, getting closed in China in six months' time and India's total production of Steel is 100 million tonnes. So, they have closed in six months, 1.5x of Steel capacity of what India produces. So obviously, it is a huge thing, it is not a very small step.

Subrato Sarkar: I got your point. Sir, just last question from my side. So, it is very clear that Graphite capacity cannot go up at a hurry. But I know although this probability is very low but things can change if for example, since China is unpredictable if China has Steel capacity whatever they have closed as a percentage of that they start like opening up. So just I am trying to understand. That is where can we change in the dynamic in that case?

Ravi Jhunjunwala: You see, as far as the UHP Electrodes are concerned, it is technology issue, there are only five-six companies in the world who have the technology. It is as I said new Greenfield plant takes at least 3.5 years to 4 years' time. There is a possibility of a little bit of debottlenecking here and there in every plant and the only reason the Graphite industry is not able to take advantage of that debottlenecking is the shortage of Coke. Now, that is anybody's guess I mean what you are asking me really it is very difficult for anybody to answer that question that will China one day allow all these antiquated 100-year-old Induction Furnaces and Blast Furnaces to restart. I mean if they had to do it, they would not close it in any case. And whatever they have closed because of the environment issue, a lot of that is being now replaced by Electric Arc Furnaces. We put up 110 million tonnes of new Electric Arc Furnace over the next two years - three years, you have practically replaced all the 150 million tonnes of closed capacity.

Moderator: Thank you. We take the next question is from the line of Varun Mehta from ISE Securities. Please go ahead.

Varun Mehta: Sir, I had two questions, I wanted to know what is our mix with domestic and exports, the quantity which we will be producing there?

Ravi Jhunjunwala: It is about two-third, one-third.

Varun Mehta: So one-third will be domestic, am I right?

- Ravi Jhunjunwala:** Yes.
- Varun Mehta:** And sir, I just wanted to have one question on the GrafTech, as they were listing, they have a capacity of 1.4 lakh tonnes for Needle Coke and by Q3 they are saying they will open up 30,000 tonnes of capacity more but is the Needle Coke would be available to them right now?
- Ravi Jhunjunwala:** No, they had announced, whatever they have said publicly is that probably they would increase their Needle Coke capacity by about 10,000 tonnes there is not much scope to increase from 140 to 150. And for this debottlenecking and for all this new capacity that they are talking about, what they have said is that they will buy it from the third-parties I mean basically third-party means the three existing suppliers who are selling to all of us. So, they will go back to the same supplier. But the only question here is that there is a shortage of Needle Coke and GrafTech stopped buying from these existing suppliers any Coke in the last seven years, eight years, nine years. So, in times of shortages whether these existing three companies would they increase supplies to their existing customers who have been with them for last 30 years - 40 years or go to a new customer that is for them to decide.
- Varun Mehta:** Right. And sir, I just want to know what will be the percentage difference in the domestic and the export pricing what we are doing the percentage difference on that, sir?
- Ravi Jhunjunwala:** See, this kind of a specific information, we cannot talk about, but domestic prices are lower than exports.
- Varun Mehta:** And sir, going ahead like we are assuming this year is going to be very good for us the dividend payout ratio can increase, or will we have the same policy going ahead 30% - 35% what we have?
- Ravi Jhunjunwala:** It is the dynamic world, I mean nothing is static. Anything can change, it is a matter of time. The board has to take that decision. Obviously, with the kind of cash flows that we are talking about in the next 12 months and for the time being as I said there are no immediate plans to use this money in the large plant so the best thing for us would be to use all this cash. First to increase this capacity of our existing plants from 80,000 tonnes to 100,000 tonnes which is very-very easy. And the next best thing has been to put up a new Greenfield plant, it may take four years, but you have to start one day. But that is not possible because of the Needle Coke. So, for the current time, we do not have any immediate plans for a very large acquisition but as I said we are looking at couple of carbon-related area which is what we know about, we the company knows Carbon extremely well for 30 years - 40 years and we have located a couple of areas where there is likely to be very high growth.
- Moderator:** Thank you. We take the next question is from the line of Yash Jhunjunwala, Individual Investor. Please go ahead.
- Yash Jhunjunwala:** So, my question was regarding the additional capacity in China that is going to come up by end of 2018 and then by end of 2020 eventually. So, this additional demand of 275,000 tonnes of

Graphite Electrodes, is this demand going to be supplied by like some Indian players as well or is it going to come from Chinese suppliers only?

Ravi Jhunjunwala: No, as I said they are adding 110 million tonnes of Electric Arc Furnace which will mean anywhere between 250,000 tonnes to 300,000 tonnes of additional Electrodes. And the kind of furnaces that they are building right now because we are aware about at least 65 million tonnes of such furnaces which are already under construction part of them have already started production, the other part is going to be starting production by end of this year. So, going by that trend, they are still building small furnaces where you do not require UHP Electrodes.

Yash Jhunjunwala: So this will not create additional demand for us, is it?

Ravi Jhunjunwala: No, that is what I said. So, given that their demand over the next four years is going to the demand of Electrode is likely to grow by about let us say 250,000 to 300,000 tonnes. So, there is no way for them but to add more Graphite capacities either in Greenfield plant or Brownfield plants or whatever they want to do and in case, they are not able to add to 250,000 tonnes - 300,000 tonnes of Electrode capacity in the next two years - three years which looks very difficult given the long lead time that a Graphite plant takes. So that could open up a new market for us. We have never exported to China, we have never looked at it seriously because they only wanted the low-grade Electrodes. So, there is a possibility of this new market opening up for people like us.

Yash Jhunjunwala: And my second question is regarding the additional Steel capacity that is coming on stream. Once, with additional capacity of Steel is on-stream, do you think China might start exporting again and that will force Electric Arc Furnaces aboard to even again start cutting down because China will again start increasing exports?

Ravi Jhunjunwala: No, you have to look at it from this point of view that they have closed 150 million tonnes of furnaces already not Electric Arc Furnaces but Steel furnaces.

Yash Jhunjunwala: Yes, correct.

Ravi Jhunjunwala: And they have announced in their policy that they have to close another 150 million tonnes. So if a country is closing 300,000 tonnes of its productive capacity which was producing Steel up till now and they are adding 100 million tonnes to replace this 300,000 tonnes through Electric Arc Furnaces and China is still growing, it is still the fastest growing economy. So their appetite and their local demand of steel is not coming down at all. So they are closing 300 million tonnes and they are only adding 110 million tonnes of Electric Arc Furnaces so theoretically, mathematically their capacity of Steel is down 200 million tonnes in any case. So where are they going to export from? They themselves going to be in short supplier as far as Steel is concerned.

Yash Jhunjunwala: Okay. And my final last question is, can you give us some sense what the global demand for Ultrahigh Power Electric is?

- Ravi Jhunjunwala:** See, roughly speaking, it is around 600,000 tonnes to 700,000 tonnes.
- Yash Jhunjunwala:** Okay. And we expect this number to remain intact for a near future for the next couple of years?
- Ravi Jhunjunwala:** No, we are expecting this demand to keep increasing by at least about 5% - 6% because this phenomena of shift from Blast Furnaces to Electric Arc Furnaces is just not limited to China.
- Yash Jhunjunwala:** Okay. So, our markets might increase because of this increase?
- Ravi Jhunjunwala:** Yes. So as I said the demand of UHP Electrodes, let us say have been in the region of about 600,000 tonnes for a very long time and suddenly this demand because of whatever we have just discussed went up by about 100,000 tonnes last year. So currently we believe that the UHP Electrode demand is in the region of let us say 700,000 tonnes whereas the Electrode capacities which exists today are exactly 700,000 tonnes. So to meet the current demand of 700,000 tonnes. The capacity is exactly 700. So it means all the 18 - 19 plants around the world that constitute this 700,000 tonnes all of them need to operate at 100% capacity, 24 hours a day for 365 days in a year. So which is very-very impractical to assume that all the 19 plants in 12 different countries will be able to operate at 100% capacity. And the secondly, there is no Needle Coke for that 700,000 tonnes. So everybody is operating at 80% - 85%.
- Yash Jhunjunwala:** Okay. So just a follow-up on this. if there is a such a big shortage of Needle Coke, I was just going through some reports from Showa Denko. So GrafTech said that they are increasing capacity by 35,000 tonnes of Graphite Electrodes and Showa Denko is increasing capacity of 25,000 tonnes. So that is about 60,000 tonnes. So is there any other supply of Needle Coke also coming up that they have planned to expand these capacities?
- Ravi Jhunjunwala:** No, we do not see any new capacity, we only see this 50,000 - 60,000 debottlenecking which is happening currently in the American plant. But I have not heard of SDK's announcement of adding 25,000 tonnes - 30,000 tonnes, it is a news to me.
- Yash Jhunjunwala:** Okay, it is in their Investor Presentation.
- Ravi Jhunjunwala:** In GrafTech, it is saying that they will have to buy this Coke for additional quantity from their existing suppliers.
- Yash Jhunjunwala:** Okay. So there is no news on Needle Coke capacity expansion apart from the largest player in America but there is news from these companies expanding capacities.
- Ravi Jhunjunwala:** They are adding 25,000 tense - 30,000 tonnes of Electrode capacity as against this 50,000 tonnes - 60,000 tonnes of additional Needle Coke capacity which is coming in.
- Moderator:** Thank you. We take the next question is from the line of Harsh Shah from PM Securities. Please go ahead.

- Harsh Shah:** Sir, please look at realizations for this quarter were roughly at \$11,800 and if you are saying 20% was at old contract that means the rest of the 80% contracts were an upward of \$14,000 that we did. So I know you would not like to talk on numbers as such. But is there a base case that we are going by for what is that we will not sell below at least \$14,000 or \$15,000 for the coming quarters.
- Ravi Jhunjunwala:** See, as I said for the next two quarters, Q1 and Q2 we have fully committed. So, there is nothing left to be sold. All the raw material is arranged, all the prices are frozen on the raw material front. All the sales have already been committed at a particular prices. So, the next two quarters are extremely well visible.
- Harsh Shah:** Sir, I said it would be better than the realization for the Q4, I am assuming 80% of the remaining contracts were done on upward of \$14,000 contract per tonne.
- Ravi Jhunjunwala:** That is what you are saying, I am not saying. But all I can say is that yes, in the current and next quarter our average realization is going to be higher than Q4 and which is logical because this 20% of the legacy orders which we still had in Q4 are also niche now.
- Harsh Shah:** But there would not be any guidance to as to the prices would be anywhere in the range if you can give this?
- Ravi Jhunjunwala:** See, in answer to question from one of the fellows participants, I did mention that in the Indian market, we are going by a policy of price every quarter and I also answered that our domestic prices from April to June have gone up. You see, I can give you some indication which is publicly available. If you read the transcript of the GrafTech's concall about a week ago, somebody had asked them that question about the spot prices. And their answer to that question was according to them the spot prices are ranging between \$17,000 to \$23,000. But again, let me not confuse the situation because I am not at all suggesting that average Electrode sales are happening at \$72,000 - \$23,000. I am only repeating what they said and there are orders, there are spot sales which are happening at these prices which you have mentioned like GrafTech.
- Moderator:** Thank you. We take the next question is from the line of Anubhav Sahu from MC Research. Please go ahead.
- Anubhav Sahu:** Sir, my question regarding the Needle Coke capacity which was earlier thought to be coming from ConocoPhillips so given that into situation does it have any implication for our change product mix or improved capacity utilization things like that, is there a visibility in some kind of the tie-up with the company on that front?
- Ravi Jhunjunwala:** See, there has been no major change in the product mix. We are still carrying some excess capacity in the plant. So if we are able to manage to, if we manage to get some more Coke because of this debottlenecking then our total production will increase and so there will be not a major shift in the product mix to say. But again, as I said currently the product mix really

does not make much of a difference because it is all a matter of margins. I mean wherever you get higher margins, you play with that Electrode.

Anubhav Sahu: Right, sir. Second sir, you mentioned that the ratio for the current year legacy contract is around 8024 Graphite Electrode which translates to 100% this quarter. Similarly, can you provide a break-up on the Needle Coke where are we placed right now? How is the break-up now as far as legacy contract is concerned?

Ravi Jhunjunwala: No, in case of Needle Coke as I said we have a six months contract with the American supplier, who is our major supplier. So these prices are valid till June and so from July onwards we are still negotiating, we have no idea about the new prices will be and that is why I also said that we have to now decide whatever price increase has to take place from Q3. Because as I said being an imported raw material we have the fixed price until June which we are aware. So those shipments will probably come to us in the month of June, July, August and then as you know the Electrode cycle takes about eight weeks to ten weeks. So, part of the Q3 will still have the Needle Coke from current prices. And the other part which will be produced from the new priced Coke coming from July that will be the other part.

Anubhav Sahu: Right. And sir, in terms of expectation, if you can provide some guidance, what is the minimum gross margin we should be looking at with the prevailing contract prices which could it upside of 50% when the things stabilize as far as the contract cycles are concerned?

Ravi Jhunjunwala: No, for the next six months as I told you we are fully booked at a price which is certainly higher than Q4. Secondly, the 20% legacy orders that were part of the Q4 prices are no more there and for the next six months for Q1 and Q2 we have all the coke at current prices. So the margin is going to be higher than at least the Q4.

Anubhav Sahu: Okay. That is great, sir. And one last question regarding the capacity expansion, if we move from 80,000 to 1 lakh, so whenever we decide to go for it, how much time period should it take?

Ravi Jhunjunwala: We have started the spadework on the assumption that Needle Coke will be available I mean obviously currently our production capacity is 80,000 tonnes and we are guiding for the current year to produce in the high 80s range. So currently we still have a spare capacity for about 10% of our current capacity itself. So what we are doing is we have appointed a consultant and we have created a team in the office to plan for the next set to go to 100,000 tonnes. And by August - September of this year, we would have a full report on the table about how much money has to be spent on that from which country, what kind of equipments have to be ordered. But the decision making on that report is not going to be anytime soon until we are assured of the additional Coke which will require because of this 20,000 tonnes.

Moderator: Thank you. We take the next question is from the line of Devang Sanghvi from ICICI Direct. Please go ahead.

- Devang Sanghvi:** Sir, my question is relating to Needle Coke this additional 50,000 what we are expecting in August, September, do we expect all of them to go to Graphite Electrodes manufacturing or some can also go to EV manufacturing as the case has been off late?
- Ravi Jhunjunwala:** Frankly, we are not aware about that and that is a question for which we are looking for that answer, but we do not have that answer at all. But I am sure, if you look at current profile of this company which is the largest one they are selling about 15% of their total coke for the other use Lithium Battery use. So I would be very surprised if they will not change, if they will substantially change this number.
- Devang Sanghvi:** Okay, sir. And are not the Japanese one exploring this particular expansion for maybe debottlenecking from Needle Coke if that is the such key element at the moment?
- Ravi Jhunjunwala:** No, up till now we have not heard of that. Obviously, we are in touch with them regularly, but I do not think they have taken any steps in that direction.
- Devang Sanghvi:** Okay, sir. This Rs. 375 million tonnes to 380 million tonnes of EAF production of steel, do we expect what expectation we have for this growth rate? This can grow at 2% - 3% at least because U. S. is also planning to expand or improve its production profile which is broadly EAF based?
- Ravi Jhunjunwala:** See, as I said, last year the Electric Arc Furnaces production went up by about 40 million tonnes. We are pretty sure about this year at least 2018 and as you rightly said the world outside of China produces 45% to 47% of Steel through Electric Arc Furnace and it is more flexible way of producing Steel and as you know the two-third of American Steel is produced through the Electric Arc Furnaces and America is the one who is adding more and more capacity of Steel that is the country which is growing the fastest outside of China. So the expectation is that the Electric Arc Furnaces share which is 46% - 47% currently will only keep going up. And then the second point was that the Electric Arc Furnaces production was limited because of scrap availability. The China has started producing and generating a huge amount of scrap and that Steel scrap is only good for use in the Electric Arc Furnaces industry. And on that assumption and because of that only China has gone into adding about 100 million tonnes - 110 million tonnes because they have scrap now.
- Devang Sanghvi:** And my third question is regarding the export and the domestic mix for this particular FY 2018 what was it and how do we see it going forward?
- Ravi Jhunjunwala:** It is more in its two-third, one-third I mean this number has changed a very little for us in the last six years - seven years, it is more or less in that same region.
- Devang Sanghvi:** And this capacity utilization if you are guiding it high 80's do we see it to be, do we see any volatility in quarter wise basis or should we on a normalized basis for all the four quarters?

- Ravi Jhunjunwala:** Not much. Our Q4 utilization was 84%. So when we are talking for the whole year coming 12 months being in the high 80's. So we just have to go from 84% to maybe 89% - 90%. There is not too much of our volatility, no.
- Moderator:** Thank you. We take the next question is from the line of Ghanshyam Binani, Individual Investor. Please go ahead.
- Ghanshyam Binani:** As I was going through the financials a bit, need a confirmation on a couple of things. One is the revenue stream which has been coming over the quarters from June onwards. Quarter-on-quarter we have been having an excellent performance coming up and the EBITDA margin has been naturally not galloping but jumping right from 6% to 43% in September to 65% December and now 72% for quarter four. This is despite the high input costs, right? So that means even the legacy contracts what we had were all at very-very good margins in terms of increasing pricing.
- Ravi Jhunjunwala:** No, legacy orders were not at good prices. They actually pull down the average but legacy orders there maybe 30% - 35% which went down to 20% in the last quarter and which are practically zero currently. So that is the reason that the average price was pull down if we did not have not those legacy orders to be completed till last quarter, the average prices would have been much higher than that.
- Ghanshyam Binani:** Okay, that is wonderful. Second thing is that what is our current inventory level like?
- Ravi Jhunjunwala:** You are talking of inventory level of finished products?
- Ghanshyam Binani:** Finished products, number of days.
- Ravi Jhunjunwala:** I mean there is no inventory we are probably working on two days inventory.
- Ghanshyam Binani:** Of the growth area that you are talking of are you considering any capacity on Calcined Petroleum Coke (CPCs) that also since you have a pretty growing area?
- Ravi Jhunjunwala:** No, this is as I just said our non-UHP product don't need Needle Coke. So they have produced out of the Indian CPC and there is enough Indian CPC there is nothing to worry on that front. And on the other 80%, you know the whole story, and nobody can help that because that technology is not available to anybody.
- Moderator:** Thank you. We take the next question is from the line of Jimesh Sanghvi from Principal Mutual Fund. Please go ahead.
- Jimesh Sanghvi:** Couple of things, we have seen a 30% increase in our raw material cost, if I have to compare from June till March. So on an index basis, what is the incremental increase that we could see on our raw material cost if you can share those details. On an index basis can it further double from here on or what kind of an increase could there be?

- Ravi Jhunjunwala:** Mr. Rustogi, will probably answer that question.
- Raju Rustogi:** Yes, it would double in terms of if we compare with 2017 - 2018; we definitely expect it to double in 2018 - 2019.
- Jimesh Sanghvi:** Okay. Or more than double?
- Raju Rustogi:** I am talking about an average of the year. So my estimate that would be between double and at the most 2.5x.
- Jimesh Sanghvi:** Okay. Secondly, sir, you said most of these Chinese capacities would be capable of using the low-grade HP Electrode. Can we comfortably say that the largest EAFs would not be in a position to use the HP grade Electrodes compared to the smaller EAFs is that a fair conclusion that we can draw from this?
- Ravi Jhunjunwala:** Yes, exactly. And in answer to somebody else's question I just said that there is a public data which is available which says that in 2017 and 2018, China is adding about 60 million tonnes of Electric Arc Furnaces and they have also said that there are 105 new furnaces for this 60 million tonnes - 65 million tonnes additional capacity. So if you take into account 60 million tonnes of additional capacity coming out of 105 new plants the average size is no more than about half a million or 550,000 tonnes per furnace. So that is a very clear indication that all the new capacities of Electric Arc Furnaces which are coming in China are for small furnaces which only require non-UHP, they do not even require UHP.
- Jimesh Sanghvi:** Okay. And the larger EAFs overseas or globally will require the UHP irrespective of the prices or the price differential that has been there between NHP and a UHP grade?
- Ravi Jhunjunwala:** Yes, absolutely. I mean nowhere in the world, anybody is putting up a new plant as small as 0.5 million tonnes. I mean if you look at India there are at least five or six furnaces Electric Arc Furnaces which are 1 million tonnes - 1.5 million tonnes - 2 million tonnes each.
- Moderator:** Thank you. We take the next question is from the line of Payal Goyanka from Ratnabali Investment. Please go ahead.
- Payal Goyanka:** Sir, my question is out of your total production of Graphite Electrodes how much goes into larger furnace?
- Ravi Jhunjunwala:** See, as I said about 80% - 85% of our production is UHP. So none of that goes too little furnace. And out of the 20 - 25 of the non-UHP, I do not have this number exactly in my mind. But there is you can say maybe half and half something like that. So let us say 10% just for the sake of saying some number.
- Payal Goyanka:** Okay. So like sir one more thing so we are saying that GrafTech is going into five-year contract. So is there any possibility like a company like us like we can take some Needle Coke

producer into confidence if we can get some cost pass-through arrangement and if we get into long-term contract. So that will give the investors the visibility of the prices in the long-term?

Ravi Jhunjunwala: No, I am sure if Needle Coke suppliers are willing to talk about that. Every Electrode guy will want to do that. But given the current situation if you put me into that question that as a Graphite producer would we like to do a five-year contract of Graphite? We will not do it because in a market which is very strong and in a market, which looks to be growing and which looks to be stronger in the future because there is no new supply of Electrode going to come from any other source why will somebody take a five-year call.

Payal Goyanka: But, sir GrafTech has taken.

Ravi Jhunjunwala: I cannot speak about the other company.

Payal Goyanka: Yes, sir. In general, it is just that it will give you the price visibility like to the investors as in for the next two quarters, you told that you are booked. So after that like we really do not know what is the situation?

Ravi Jhunjunwala: I can only give you an indication that given the current market condition with the current demand, it will not be lower than what we are going to do in Q1 and Q2. In all probably it will be higher.

Moderator: Thank you. Well, that seems to be the last question. I would now like to hand the floor over to Mr. Ravi Jhunjunwala for his closing comments.

Ravi Jhunjunwala: Thank you, friends, and for taking so much of interest in our company. Probably this has been the longest call that we ever had and I hope to speak you to in the next three months - four months; time and I am very confident that we are on the growth path, we are sitting on a strong market and I am confident that when we speak next time, we will be speaking of better numbers. Thank you.

Moderator: Thank you. Ladies and Gentlemen on behalf of HEG Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines now.