



“HEG Limited Q3 & 9M FY19 Results Conference Call”

**February 18, 2019**



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**Moderator:**

Ladies and gentlemen, good afternoon and welcome to the HEG Limited Conference Call to discuss the Company's Q3 FY19 and Nine Months FY19 Results. Joining us on the call today is Mr. Ravi Jhunjhunwala – Chairman and Managing Director and CEO; Mr. Gulshan Sakhuja – CFO and Mr. Manish Gulati – COO and CMO, HEG Limited. 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. At this time, I would now like to hand the floor to Mr. Ravi Jhunjhunwala. Thank you and over to you, sir.

**Ravi Jhunjhunwala:**

Good afternoon, friends and welcome to our Q3 FY19 concall. In line with the first two quarters results, our third quarter performance continues to be strong, supported by global market conditions, global steel sector growth, pricing and demand of electrodes. According to the latest data release by the World Steel Association, the world's steel production grew by about 4.6% compared to last year which was 1810 mt. Similarly, the steel production last year excluding China also grew by about 2.5% while China steel output hit a record high of about 925 mt, up by about 6.6%. China's electric arc furnace steel production growth remained strong in line with the Chinese government's push to replace polluting steel capacity and as per our information electric arc furnace production last year has actually doubled from about 6% of the total steel to close to 12% which is expected to be around 20% by 2020. This is in line with what the Chinese government's policy announcement was when they announced certain closures of large blast furnaces, induction furnaces due to pollution reasons. China is pushing for more and more incentives to boost domestic demand of major steel consumption sectors like infrastructure, automotive industries and the white goods. Their export of steel continues to decline since large capacity shutdown initiated by them in early 2017. After declining by about 30% in 2017, we see a further decline of another 8% in 2018. The scrap prices which is a major raw material for electric arc furnace industry have actually declined by about 10% since August 2018 whereas iron ore and coke which are the two major raw material sources for blast furnace industry have gone up by about 20% and 17% respectively. Iron ore prices continue to increase due to declaration of Force Majeure at one of the large mines in Brazil. This should help electric arc furnace economics and boost production in the immediate future.

Now, coming to India, we became the second largest producer of steel in middle of 2018 when we overtook Japan. The steel production in India grew by about 5% which stood at about 106 mt against 101 mt in 2017. However, the steel prices in India after declining by about 16-17% in the last four months are now showing signs of improvement in the last few weeks where we are seeing some sort of price increase taking place on the steel. In the last quarter, as we all know, the world has gone through some major geopolitical changes with China, US trade agreement and uncertainty about what happens in early March when the deadline set by the US on the tariffs take place and lately more so because of the uncertainty on the Brexit.



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Significant development during this quarter has been the complete stoppage of our exports to Iran due to US sanctions. Sales to Iran comprised of about 7-8% of our total business in the past few years and we have now to look for some alternate market to replace this tonnage.

Having said that, we believe the electric arc furnace steel production in the world excluding China will still grow at about 2-3% on a compounded growth basis. This is where our market is, this is where we sell most of our ultra-high power electrodes. And keeping this in view, and also keeping in view that currently we believe the demand supply and the production side and the demand side is more or less in balance with about 700,000 tons being the demand and 700,000 tons being the capacity for ultra-high power electrodes. Keeping this in mind, we continue to carry on with our expansion which we had announced about two months ago. The work has actually begun. We are in the process of now finalizing certain major orders for some of the critical equipments where the lead time is as much as about two years.

Due to sudden and untimely demise of our friend, our COO and CFO about three weeks ago, Mr. Rustogi, we have made certain changes in the last 10-days or so. I would now hand over the floor to our newly appointed CFO, Gulshan and to take you through the rest of your queries, I will be supported by our newly appointed COO and the CMO Mr. Manish Gulati. So over to Gulshan now. Thanks.

**Gulshan Sakhujia:**

Thank you sir. Good afternoon, friends. For the quarter ended December 2018, HEG recorded revenue from operations of Rs.1,865 crore as against Rs.1794 crore in the previous quarter, a jump of nearly 4% QoQ and nearly 121% YoY for the same period last year. EBITDA including other income which stood at Rs.563 crore in the corresponding quarter of previous year have increased to Rs.1,351 crore, an increase of nearly 140% year-on-year. The company reported net profit of Rs.867 crore in Q3 as against profit of Rs.889 crore in the previous quarter and Rs.342 crore in the corresponding quarter of last financial year. Sales turnover is a factor of both volume and prices, we are happy to inform that the company have been able to achieve a healthy growth in both the aspects. Net sales and also the segment results in the power segment are lower in nine months of current year versus the corresponding period of last financial year as we have been able to negotiate on mutually beneficial terms with the government utility company and replace part of our high cost self-generated power which is thermal with the power purchase from the state electricity board. 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 a revenue in power segment is booked based on the corresponding rate of power defined by the state and utilities. This step has had a favorable impact on the overall cost of power consumed in the graphite segment. The increase in annual employee benefit expenses over the same period of last year is primarily on account of employee related incentive schemes based on the performance of the company as well as the commission payable to the chairman under his contractual terms of the appointment.



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The company is debt-free and have been handling treasury operations to the tune of nearly Rs.1900 crore as on date. Buyback is on and we had filed an application to SEBI on 6<sup>th</sup> of Feb 2019. Post approval it is a matter of 30-days to complete the buyback process.

With this background, I would request the question from the participants.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Anubhav Sahu from MC Research. Please go ahead.

**Anubhav Sahu:** My first question is on the Iran thing. In the quarter gone by, did we export anything to Iran? Has the sanction already had impact or the impact will be seen in this quarter?

**Ravi Jhunjhunwala:** There was a wind-down period of 90-days which ended on 6<sup>th</sup> of August and there was another 90-days final wind-down period which ended on 4<sup>th</sup> of November. So our product, graphite export had to be stopped by 6<sup>th</sup> of August which we have and we are not exporting anything to Iran now.

**Anubhav Sahu:** The other countries which are exporting to Iran, have they been impacted, do you have any views on that, the China being a dealer exported to Iran, is China also?

**Ravi Jhunjhunwala:** China I think continues to do from this route and that route but I do not think anybody of the major players like Japanese or graphite is doing exporting anything to Iran.

**Anubhav Sahu:** Coming to Ultra HP prices which have softened a bit, so do you think that it is mainly because of the slowdown in end market that is steel or is it because of the interim oversupply due to Iran factor or maybe the factor which you probably mentioned if I got it right, that the China graphite electrode production have been little ahead of the capacity addition of ES is concerned?

**Ravi Jhunjhunwala:** Yes, that is what we think, that is right. If you look at demand in the long-term, it continues to grow. What is happening now are like corrections, like there was lot of panic buying last year, prices have shot up to \$20,000-25,000. So that spike is now behind us. Now we are in era of more stable pricing at elevated level. So pricing of UHP remain strong, while the HP we will discuss later, there we have some issue from Chinese side, but UHP we are very confident and we believe and if you look at our peer group, if you look at the results which have come from **Fortify Carbon** and Nippon Carbon and others, you will see that they are almost equating the same thoughts as we have that UHP pricing is going to remain strong.

**Anubhav Sahu:** One more last question on the raw material prices. Your commentary on the needle coke, other than needle coke, how are the other raw material prices are behaving and do the contribution of needle coke in our raw material which was earlier 2x3, has that ratio changed anyway because of that?



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**Ravi Jhunjhunwala:** Along with this electrode prices, certain raw materials have had also gone up and we expect a decline on them as well. The needle coke itself comprises about 35% of carbon production and then next cost is electricity. The other things like pitch and metallurgical coke add to a very small number, but they were also on the rising spree, and now with this electrode pricing getting stabilized, we expect the pitch prices and other coke prices to normalize I would say.

**Anubhav Sahu:** I would assume that now the ratio which the needle coke has in the raw material cost has also changed over the period, earlier it used to be 2x3 for the raw material that we used to consume for electrode, is there any material change in that assumption?

**Gulshan Sakhuja:** There is no change in that.

**Moderator:** Thank you. The next question is from the line of Vishal Chandak from Emkay Global. Please go ahead.

**Vishal Chandak:** Sir, my first question is with respect to the contribution from the UHP grade in the EBITDA vis-à-vis the HP grade?

**Ravi Jhunjhunwala:** Obviously, as Manish has explained, we produce about 75-80% of our production on the UHP grade where until the last quarter we have not seen any sort of demand slackness or the prices. So answer to your question is it has more or less remained where it has been in the past couple of quarters but on the non-UHP side, the high power as they call in China, there we are seeing some substantial weakening because there is no data to support what I am saying but I am just guessing that if you remember about two years ago in 2017 when China had taken the step of closing about 130-140 mt of polluting steel plants like large blast furnaces and induction furnaces. Electric arc furnace which used to be about 6% of the total steel would go to about 20% by 2020. And then they had also given the breakup as to how and when they expect this 6-20%. So in line with that in 2018, to the best of whatever we have heard is that they have reached 12% which means 50 mt of electric arc furnace that they produced in 2016 or '15 has doubled to about 100 mt. And if they are on track for the next two years, this number should be somewhere in the region of 150 mt. So 50 mt going to 150 mt in about four years time, so which obviously means that their electrode demand will increase by 3x. And as we have been explaining in all our con-calls, China produces practically 100% of electrodes which is the non-UHP. What the world calls non-UHP and UHP, Chinese electrodes will qualify for practically 100% in the non-HP segment. And in line with that, the size of furnaces, the capacity and the power that they need in the newly built electric arc furnaces which they are building, they require the same non-UHP electrodes which they have been using for last many years. So obviously, if the steel capacities are doubled and they are likely to go up by another 50 mt in the next two years, so in order to meet that demand where existing graphite capacities also to double or let us say become 3x in the next two to three years' time. So what we believe is that there has been probably a mismatch where the capacities of existing non-UHP electrode making in China, those capacities have probably come maybe six months, maybe nine months



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earlier than the newly built Greenfield steel plants. So in a nutshell, what we are probably assuming is that the electrode capacities have come in earlier than the new steel capacities are coming in. So, there is probably a time gap of maybe six to nine months before this extra capacity of electrodes catches up with the new steel plants which are coming up because as we have seen the steel production in 2018 has gone up and most of that increase has to be electric arc furnace because they are not building any new blast furnaces anymore. So, it is a matter of time according to our guesstimates is that by the time the next six to nine months when they add another 30, 40 or 50 mt of electric arc furnaces the mismatch of timing that we spoke about, the electrodes which have started coming into the market will find a place of consumption.

**Vishal Chandak:** Sir, next question was with respect to the CAPEX that you have announced. If you could just help us on where we are with respect to the CAPEX and what is the expected timelines and the funding pattern, I am assuming it would be completely internal accruals?

**Ravi Jhunjunwala:** The funding will be internal accruals and there has been no change, we had announced this sometime in early December, the cost remains at about Rs.1200 crore and the duration is three years.

**Vishal Chandak:** How much we have spent so far?

**Ravi Jhunjunwala:** We have just started the construction, we have just cleaned up the site and we have just appointed the consultant and we are just about to start placing orders. The real CAPEX is going to start now. For the time being this was basically very small preparatory expenses that we have done.

**Moderator:** Thank you. The next question is from the line of Abhisar Jain from Centrum Broking. Please go ahead.

**Abhisar Jain:** My question is on the needle coke supply. So, there were some debottlenecking that Phillips 66 had taken in calendar year 2018. So if you can provide some update on that? And then the outlook for the needle coke supply for calendar year 2019?

**Ravi Jhunjunwala:** They have done that and major part of that capacity is onstream and on that basis we do expect some improvement, we do expect to get more and more coke going forward.

**Abhisar Jain:** This capacity debottlenecking was around 50,000 tons, is it?

**Ravi Jhunjunwala:** We do not know the exact number. It could be somewhere in that region. It can be anywhere between 35,000-50,000. It takes a lot of time for the needle coke producer to stabilize that capacity.



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- Abhisar Jain:** Other than that there has been no change in the needle coke supplies from the other suppliers as such, right, given the change in industry dynamics and the high needle coke prices also?
- Ravi Jhunjunwala:** Nobody talked about any debottlenecking except one particular refinery of Phillips 66.
- Abhisar Jain:** On that basis as you mentioned, you expect to get higher allocation for FY'20 as a fiscal year based on needle coke availability we can actually do more production year-on-year, is that understanding correct?
- Ravi Jhunjunwala:** Obviously, if there is more needle coke available in the market, it will be available to everybody. So everybody should get a share of 30-35- 40,000 tons whatever they are able to produce.
- Abhisar Jain:** To that extent we can expect to be producing higher?
- Ravi Jhunjunwala:** Yes, that is a fair estimate.
- Abhisar Jain:** Any indications on the needle coke contracts, I believe for H1CY19 is already settled and given the recent trends in the industry in terms of the softening of the prices, though for UHP they have not softened dramatically but still any outlook for how the negotiations in needle coke could pan out going ahead?
- Ravi Jhunjunwala:** Currently, these prices are chosen on a semi-annual basis, so obviously the prices are chosen till June and it is too early to speak about what happens in the second half.
- Abhisar Jain:** For the first half the price increase was approximately how much?
- Ravi Jhunjunwala:** Without going into specific numbers, it is somewhere in the region of \$4,000.
- Abhisar Jain:** In terms of the Chinese electrode exports, while we understand that the quality might not be comparable and is not comparable but what we have been seeing is of whatever quality they are exporting there seems to be very significant increase even in CY'18 and there were some increase I believe in CY'17 also. So just wanted to understand is that where would this be getting consumed because some of the furnaces beyond a point would not be able to take the non-UHP electrodes if I am not wrong?
- Ravi Jhunjunwala:** You are right. Last year if you remember around this time there was lot of pressure from the government, there were lots of talk about putting an export duty on electrodes and things like that and the situation last January-February was very-very bad compared to what it is today. So obviously the industry wanted us to not oppose the government removing the anti-dumping duty. Until last year there was an anti-dumping duty on the Chinese electrodes. So, to support the Indian industry, we also supported that the government withdraws the anti-dumping duty which they did. So, that has resulted into lot of imports coming into the non-UHP segment. But



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you are right, the non-UHP segment is which is a small segment, to that extent the Chinese electrodes are now coming in and as we just explained probably the demand in China and the new steel capacities coming in, probably there is a mismatch in terms of timing. Obviously, Brownfield expansion of an existing graphite plant will take much less time than the newly built Greenfield steel plant. So we expect that this is our understanding. If this is correct, then it is a matter of maybe six months, nine months before we see a lot of these non-UHP electrodes getting consumed within China.

**Abhisar Jain:** Just to be slightly more clear on this from your understanding point of view is that nothing of that sort has taken place in China wherein they have also started making UHP and competing in that segment, right, so whatever exports would have gone up, it is largely in the non-UHP, the UHP segment is still not impacted because of the Chinese developments, right, is that understanding correct?

**Ravi Jhunjhunwala:** You are absolutely right.

**Moderator:** Thank you. The next question is from the line of Jimesh Sanghvi from Principal Asset Management. Please go ahead.

**Jimesh Sanghvi:** Just wanted your sense on the historical differential between the HP and the UHP prices as to what was the premium earlier and where it stands today?

**Ravi Jhunjhunwala:** I would not remember the historical number but in the last 12-months or 18-months on the back of a very-very strong demand, there was practically no difference between HP and UHP. My guess is it must have been like 15-20%, but again if we go back into 2015-16 when the electrode prices were extremely subdued, so probably even at that time there was probably very little difference between UHP, non-UHP. So there is not one certain data which I can provide you on that but obviously the non-UHP electrode by definition is non-ultra high power and it does not need the needle coke, it needs coke which is locally available in India which is not of the same quality, much lower quality. So obviously, there is a difference in the raw material cost. So to that extent, the cost of production of non-UHP electrode is cheaper.

**Jimesh Sanghvi:** Secondly, there have been reports about Shanghai power steel chemicals and Fangda carbon kind of setting up 1 lakh ton UHP grade capacity in China. So any update on that which you would like to share because this shows that probably the Chinese manufacturers also have the ability to manufacture UHP grade electrodes?

**Ravi Jhunjhunwala:** While it will be not proper for me to comment on a specific name that you just said, but in general, I can repeat what I have been repeating in answering a similar question in the past 1, 1.5-years. China does not have the technology for UHP and I do not think it is that easy to get this technology. You need a lot of time. You need a company behind you who with a wealth of experience of how to produce UHP. It is not just about raw material. Obviously if we can buy



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needle coke everybody in China can also buy needle coke. So it is not just availability of raw material, it is basically the technological produce UHP and I do not think China is anytime if any closer in getting this technology as it was in the last so many years.

**Jimesh Sanghvi:** What will be the price differential as on today between UHP grade electrode and then HP grade electrode that we are selling?

**Ravi Jhunjhunwala:** For competitive reasons, I would not like to give a specific number. We have to also look at the spread between the electrode price and the coke which we used to make that product. What I can say is that the HP grade as I said just five minutes before that UHP prices continue to be strong, what I can say is that yes, our HP prices which are 20% of our production are impacted by these increasing exports out of China which the previous gentleman mentioned. So we are definitely impacted on those prices and to give you a number, I mean, we are definitely 40% down for this 20% portion of our business.

**Jimesh Sanghvi:** Lastly, if you can share the breakup of the spot volumes and the long-term volumes that we have sold during the quarter?

**Ravi Jhunjhunwala:** The spot thing was true till about a quarter back when there were the spikes when we were selling at; we sold lot of tonnage, about 7000-8,000 tons above, \$20,000 even to several countries. So that part is over. It is more a stable environment. So we can say that now there is nothing like spot pricing. In fact, now we are getting into three months or up to let us say six months in exports in regular contracts.

**Moderator:** Thank you. The next question is from the line of Manish Sonthalia from Motilal Oswal. Please go ahead.

**Manish Sonthalia:** Two questions: One is that how much production will be used in Q4 now that we have to find the market for Iran export which has gone? Second question is that there have been reports that the HP exports coming out of China is finding acceptability with even Indian producers and they are a subsidiary of UHP for HP. How much of total is there because obviously HP imports are at much lower prices than what it used to be. So, is there an element of substitutability which is finding acceptability in the Indian markets?

**Ravi Jhunjhunwala:** I will answer both the questions. Your first question was that what is going to be our production in Q4. We believe it should be the high-80s. Question #2 which you had was that these HP electrodes coming in China are substituting in the UHP. To that I should say emphatic no because that is not possible because it would happen in any furnace of the world and for the simple reason the ultra high power grade electrodes are used in large furnaces which are melting furnaces. There is a needle furnace which is supporting the electric arc furnace which is used for refining which does not have as much stringent demand of the electrode. That is where HP electrodes are used. So they are not actually switchable. Electrode



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imports into India are coming in are all going for needle furnaces and also to some small furnaces mainly used by alloy steel producers because there the furnaces tend to be small because the heat sizes tend to be small. So they really do not need their economies of scale justifying which need large UHP electrodes. I will try to just clarify further. These electrodes, this 20-25% segment non-UHP that we sell go to a different kind of furnace compared to the UHP, this is like 75-80% of our business. So, if your question is that the bigger furnace where the UHP electrodes are required can use non-UHP. Answer to that is a very emphatic no. As I just clarified, we were approached by the steel industry, we were approached by the Government of India and accordingly they removed this anti-dumping duty. So it is not that these non-UHP electrodes have just started coming in from China except for a brief period of about a year, year and a half or two years, when the anti-dumping duty was imposed and the anti-dumping duty at that time when the electrode prices were very low were as much as 40-45%. So in that backdrop, those imports did stop. So it is not new that there is non-UHP electrodes have suddenly started coming from China, there have always been there except for the brief period of 12 or 18-months when we had requested for this anti-dumping duty and the government agrees with that.

**Moderator:** Thank you. The next question is from the line of Sameer Kapadia from Rockstead Capital. Please go ahead.

**Sameer Kapadia:** My first question is almost 70% of that exports goes to various countries. So which are the major markets which the company exports to? My second question is are there any upcoming capacities in the graphite electrodes?

**Ravi Jhunjhunwala:** At HEG, we are very well diversified in our customer base globally. So there is not one or two countries where our exports are going. We are exporting to more than 30 countries including Americas, including many of the countries in Europe, Middle East, Southeast Asia, even Russia. So you can take it let us say equally spread across continents barring a few percentage here and there. It is not that we are localized or we are depending on one particular region or country. We are quite evenly spread I would say.

**Sameer Kapadia:** Are there any upcoming graphite electrode capacity which are coming up?

**Ravi Jhunjhunwala:** No, not from the world majors, none of them have announced any capacity expansion.

**Sameer Kapadia:** Secondly, in regards with the needle coke situations whereby there is some supply constraint. So by when do you expect the new capacity coming in because I think post three years time we would also require the additional raw materials like needle...?

**Ravi Jhunjhunwala:** You are right, but that is something which needle coke suppliers are watching, the major ones Phillips 66 has already done that small bottlenecking. The Japanese do not seem to be planning any expansion. So maybe they are also watching the market because for them it is a very big



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investment and takes five, six years to come and cost more than a billion dollars. So, I am sure they must be watching the situation.

**Sameer Kapadia:** Then how does the company expects to meet its needle coke requirement once the CAPEX has been done because you said it would take five to six years to bring up any new capacity?

**Ravi Jhunjhunwala:** When the needle coke becomes available, we should be found ready, let me put it this way. We should not be found wanting that needle coke becomes available and then we go looking for expansion.

**Sameer Kapadia:** But then timing would match, are you trying to say?

**Ravi Jhunjhunwala:** Even if it does, at least we are upgrading our facilities, we are doing lot of things here. So it would be worth it.

**Moderator:** Thank you The next question is from the line of Pralaj Jain, a retail investor. Please go ahead.

**Pralaj Jain:** I had a few questions: One is that in terms of channel checks are confirming that the UHP GE pricing has been contracted with Indian steel makers for Q4 at 10-15% lower rate. Do we have this newer contract for Q4 where export prices also lower?

**Ravi Jhunjhunwala:** You are comparing Q3 to Q4, is that right? So that 10%, that ballpark figure is correct.

**Pralaj Jain:** Do we have a similar lower contract for Q4 on export prices or do we have similar to Q3 prices?

**Ravi Jhunjhunwala:** We are basically an international supplier of electrode. Our total sales are no more than about 25-30% in India. So, Indian prices and international prices tend to be similar, there has never been a time that there is a large difference between India and exports. So whatever is our export price and whatever is our domestic prices, more or less virtually similar. As there is practically zero duty on import of electrodes into India, so obviously we cannot keep a higher price in India and risk imports coming into our country.

**Pralaj Jain:** So this 10-15% lower rates that we have contracted, this is going to affect our exports as well, that is what I was asking about or whether they are only for the Indian steel makers?

**Ravi Jhunjhunwala:** As the spikes of that electrode, there was a combination, there are some spot orders in the last quarter and then there are some contracted one. So if you amalgamate both of them, there would be somewhat decline between Q3 and Q4 in global prices as well. But as we are still booking, it is difficult for us to quantify how much that it is going to be, whether it is going to be 10-12%, we really cannot quantify at this stage because we still have some orders to book between now and till March-end.



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**Pralaj Jain:** So in terms of margins, would we be able to sustain our margins going into Q4 or would we see a reduction in margins? Our EBITDA margins decreased by 5% this quarter compared to Q2 and our PAT margins were down by 4%.

**Ravi Jhunjhunwala:** As we just said, UHP prices are down, the non-UHP prices are of course much more down compared to the UHP. So, obviously, we will not be able to maintain the margins but obviously the margins that we have seen in the last three quarters are nowhere close to normal margin than one can expect for a very long time. So to answer your question is of course it will be impacted.

**Pralaj Jain:** Mr. Gulati did mention on TV that in terms of the contracts, we are still looking at overall contracts being sold for Q4. Is this normal or is there a difference in terms of demand and supply that we have seen because we have not heard something similar, previously, what we have been hearing is we always had three to six months earlier we used to book all the contracts but this time it is like we are still booking contracts, so is it a demand/supply situation that is different this time?

**Ravi Jhunjhunwala:** I will explain this very well because I am facing this. The last two quarters, there was so much of panic buying by our customers. The company which was keeping one month of inventory, it will keep two, so the company which was keeping two, wanted to keep three. So this is quarter-on-quarter correction. So the long-term demand remains where it is. And as you know we have said earlier also that we were booking quarter-by-quarter. So we have to just give our customers a little time to bring that inventory levels to normal. Otherwise the demand is very much there. We can see how much steel they are making and we are just giving them sometime to correct their positions. That is all. That is why as I said we were booking quarter-by-quarter, but it should have been actually booked but it is going slightly slower, but we hope to book it as we go along up till March.

**Pralaj Jain:** My next question was that we actually did 85% utilization for Q2 versus 82% utilization for Q3. So there was a drop of 3% utilization overall. Are we looking at a drop in utilization in Q4 or are we looking at similar utilization or higher utilization?

**Ravi Jhunjhunwala:** We will be high 80s and I can clarify because I have the figures in front of me. That was not 85%, that was less than that, that was sales related. Anyway, let us stick to that 82% in Q3 and high 80s in Q4. So there is no drop as such.

**Pralaj Jain:** Now we are actually seeing that or we are hearing that rates have softened in terms of UHP, there is still demand but rates are not as high as they were before. NCs, that has come in, NC has been 1,000 plus QoQ. Do we see this continuing across or do we feel that NC rates have actually peaked overall?



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**Ravi Jhunjhunwala:** It is very difficult question to answer. We have just started getting the new needle coke from January onwards. And as we said, these prices are chosen for the first six months. So the next negotiation will only happen in April, May, closer to the time of second quarter, let us say July. Until then we will have very little to tell you on the needle coke front because there are only two or three major suppliers. Except these two, three there is no way to estimate us to what the needle coke prices could be.

**Pralaj Jain:** What is your frank opinion because the needle coke actually started with somewhere around \$500/ton and has now gone to \$4,500/ton in a year or so, where do we see this bottoming out overall?

**Ravi Jhunjhunwala:** Going by 500 to 4,000 if you look at electrode, electrode prices were like 2,000 and our average for the last three quarters 7-8x, it could be a couple of 100,000 tons whereas 9x, 10x also. So everything stabilizes at certain level. I do not think we do not expect any increase in the coke at all. There should be some softening but again I am just giving my guess. I have no reason to say what I am saying. But just to clarify your point about demand, if we were seeing any softening of demand, we would be reconsidering our decision on expansion. We are going ahead as I just said we are committed to expanding this plant by 20,000 tons and as we have been seeing in the past until today we have not heard anybody else announcing any expansion. Given that this expansion itself is going to be about three years from today and this constitutes about 3% of the total capacity of the world of electrodes so we do not see any issues, if we are as pessimistic and saying that in three years time steel capacity or steel demand or steel production will not even increase by 3% in three years, only then we will have a problem in selling these 20,000 tons because we are pretty sure that anybody else who will follow and announce any new expansions or debottlenecking, he will also not take less than three years time. That is a very standard time that any graphite electrode plants will take to debottleneck.

**Pralaj Jain:** Basically, Graphtec are not coming to the market because of getting needle coke as well as the pricing of needle coke, that is one thing. However, the capacity is there. So Graphtec has the capacity, looking at 30,000 additional capacity as well. The capacity is there, it is only about needle coke at this point of time wherein it is not coming online. So we will probably need to look at needle coke has been available three years down the line. As we see there is no debottlenecking happening but we will probably need to be certain as you would have done a survey before looking forward to the expansion that needle coke will be available. Otherwise, what will happen is currently we are at 80% utilization. After the capacity expansion, we will come to 60% utilization.

**Pralaj Jain:** What you are saying logically is absolutely correct but we have not heard of any 30,000 tons plant what you just said. Whatever we have done it was already done last year. They had expanded one of their plants in US about three, four years ago and they were not producing even very close to high capacity. So on the back of a very strong demand, they have increased production recently last year because of the demand situation but we have not heard of any



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new expansion being announced by anybody, as I said, including Showa Denko. As far as Graphotec is concerned, I obviously cannot comment on what they are doing but from all the public information, all their announcements it does not seem that they are ready to restart St. Mary's in a short period of time.

**Pralaj Jain:**

What would happen in your opinion when Fangda announce capacity as well as UHP capacity being announced in China which may actually come online in 2020 or so? Graphotec starts the St. Mary's plant and we see expansion overall in the UHP segment. What happens two, three years from now down the line when we expand as well as many other people expand when and we have UHP capacity, are we saying whatever capacity news that we are hearing from China is that Chinese material UHP is certainly not going to be consumed at all across the world, it is like it is not really comparable at all, are we saying that time and again because we are hearing lot of capacities coming up in China?

**Ravi Jhunjhunwala:**

I answered this exact version about five minutes ago. There is a lot of confusion when we talk about China and UHP. Let me clarify once again that 75-80% production that we do of the ultra high power is not the same UHP, it should not even be compared with the Chinese UHP that we are talking about. So it is totally two different kind of products. Again I should not be commenting upon somebody who has just announced an expansion or a new plant. But they are going to produce the same thing which they have been producing for last many-many years. The reason I am saying is that the new steel capacities that China is building, is exactly the same what they have had for the last many-many years. So those plants which are now starting production in the steel segment, are going to require the same electrode, the same quality of electrode which they have been consuming up till now. To answer your question, we are really not worried about what somebody in China is doing because we still compete with China only on the last 20-25% segment of the world market of graphite.

**Pralaj Jain:**

I basically wanted to understand from a capacity expansion perspective. You are setting up a dedicated nipple line. How does that contribute overall to our bottom line – is it like currently we do not make the nipples or we are looking at a dedicated nipple line so that we can make more nipples for other electrodes as well?

**Ravi Jhunjhunwala:**

Nothing like that at all. Basically, we are building you can call it a nipple line, whatever line it is, but that dedicated nipple production that we are planning to do in the same compound where electrode production is, that in turns frees up our existing capacity by about 20,000 tons. So the nipple plant is not going to produce more nipples than what we need but it does free up enough capacity in the existing plant for about 20,000 tons of electrodes. So after the expansion, the capacity for electrodes and nipples will be about 100,000 tons.

**Pralaj Jain:**

Is it not that our expansion is for 20,000 tons and then we free up another 20,000 tons, making it 40,000 tons?



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**Ravi Jhunjhunwala:** Not at all. Electrode and nipple go hand-to-hand. Piece of electrode without a piece of nipple is of no use. So when you sell electrode, you necessarily sell one piece of electrode and one piece of nipple. Currently, our capacity is 80,000 tons of electrode and nipple and post expansion it will be 100,000 tons.

**Pralaj Jain:** That is three years down the line, right?

**Ravi Jhunjhunwala:** Yes.

**Pralaj Jain:** I have one last question, this has been on my mind for a long time. HEG actually would have 2,000 plus crore on books even after buyback after this quarter. Last Q2 conference call, we had talked about annual material in battery space, that HEG is looking at seriously. So do we have any update on that? Are we looking at that line or are we looking at any other EPS-accretive acquisition because the stock market as well as investors are actually looking at something more in terms of EPS-accretive businesses that we can do with the cash on books that we have?

**Ravi Jhunjhunwala:** Rs.750 crore out of that is going to be spent pretty soon with our buyback. This expansion which is going to cost Rs.1,200 crore is all internally funded. And of course, for the last year or so, we have been looking at lot of other opportunities including some which is available publicly in the NCLT case. We are not yet at that stage that we can tell you anything very specific about what we are looking at because there is a lot of things in progress, there is a lot of work-in progress let us say and we will obviously announce it and tell you whenever we are close to that.

**Moderator:** Thank you. The next question is from the line of Devang Sanghvi from ICICI Securities. Please go ahead.

**Devang Sanghvi:** My question is regarding needle coke. The supplies to the EV side is around 10-15% or recently increased in last say six months odd, any comments on the same?

**Ravi Jhunjhunwala:** The coke which is used for the lithium application is actually not needle coke. It has actually hurt that capacity. The number which you are saying 10-15%, yes, we heard that number, but again as I said it does not affect the needle coke availability for electrode making.

**Devang Sanghvi:** Prices we kind of get in Q4 FY'19, do we expect the similar trend to continue for FY'20, any comments on the same?

**Ravi Jhunjhunwala:** Whatever we get for Q4 will extend into 2019 balance quarters for the UHP side. For the next year, UHP would definitely sustain. HP we are just watching the situation, what is the extra inventory flowing out of China, when will that stop, when will that happen, we cannot comment much on that but UHP will sustain through the year, that is what we think.



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- Devang Sanghvi:** Probably a bit early but any guidance on FY'20 utilization levels because we will have additional needle coke after Phillips 66 has expanded capacity, so do we expect...?
- Ravi Jhunjhunwala:** It is going to be 90%, that is the plan.
- Moderator:** Thank you. The next question is from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.
- Sanjay Jain:** First question is on what is our cash surplus as of the 31<sup>st</sup> December?
- Gulshan Sakhuja:** As on 31<sup>st</sup> December, it was approximately Rs.1500 crore and as on date it is Rs.1900 crore.
- Sanjay Jain:** Second question is on buyback. I was just wondering, there is a big gap between buyback price and the current market price. Instead of tendering process, should not we go through market operations, we can buy more shares for the same money from the markets?
- Ravi Jhunjhunwala:** This decision of buyback and the pricing and everything happened in end of November. If I remember correctly in the board meeting that we held, at that time the prices were close to 4300-4400. So, at that time premium of about 22-23% which is what the board considered as Rs.5500 of buyback, that look like a very normal number because if you go through all the buybacks in the last 12-18-months, the buybacks have normally been between 15% and 25% premium. So obviously the board took a view based on the market price on that day. So obviously for whatever reasons prices have dropped, geopolitical situation is no more what it was two months ago. Once you have announced buyback, I do not know even if SEBI rules will allow us to revisit their numbers. So we just have to go through that.
- Moderator:** Thank you. The next question is from the line of Sameer Kapadia from Rockstead Capital. Please go ahead.
- Sameer Kapadia:** A couple of follow-up questions: We do not export to China. Is that understanding right?
- Ravi Jhunjhunwala:** We do export, but that quantity is insignificant, like 500- 600 tons a year, not much.
- Sameer Kapadia:** The switch which is happening between Chinese market whereby blast furnace to electric arc furnace, so we would not be actually benefiting out of those things?
- Ravi Jhunjhunwala:** No, because there is a plethora of suppliers already. The furnaces most of them are not going to be using the large diameter electrodes like 28" or 30". So they have abundant supply of their own electrodes. So we do not think there is going to be any benefit to HEG from their electric arc furnace production.
- Sameer Kapadia:** Regards with this Iran ban which has happened, how and where does the company sees to place the additional 8-10% kind of production, which market it would be?



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- Ravi Jhunjhunwala:** Actually, we have to try in every country to increase the width and depth of our presence. Increase more customers in a country where we already present or try to increase market share with our existing customers. So that is to be absorbed by our other markets.
- Sameer Kapadia:** Lastly, in regards with the cost of production, where do we stand in terms of our peers – are we among the lower end side or like the cost of production is higher compared to the other players?
- Ravi Jhunjhunwala:** If we look at our cost of production, yes, we are one of the lowest I would say. As you look at Japanese, we are definitely lower, there is no doubt about it. If you look at the plants which exist in Europe barring about one, I think we are lower than them, we are also lower than Graphtec' cost of production. So we are one of the lowest cost producers in the UHP category of these four, five players.
- Sameer Kapadia:** Can you just give us guidance in terms of what percentage lower it would be from the other players if possible?
- Ravi Jhunjhunwala:** In dollars per ton, we really cannot say, because it depends from plant-to-plant, I do not have any ready figures with me as it changes year-after-year, but yes, we are certainly lower than the Japanese producers, Graphtec, some European plants.
- Sameer Kapadia:** We understand that these margins which we are currently having it are on a very high side. So what would be the sustainable margins that we can expect in the long run, any guidance on that part?
- Ravi Jhunjhunwala:** It is really difficult to say. It is dependent on so many factors. It depends on what needle coke prices would come. It is dependent on so many factors – the pricing, the raw material pricing. It is very hard to say what kind of margins will be there going forward but surely better than most of the industries.
- Moderator:** The next question is from the line of Arvind Sharma, an individual investor. Please go ahead.
- Arvind Sharma:** I have two main questions. I would like to understand, if somebody is producing steel via the UHP grade and a non-UHP grade, what is the difference between the quality and the cost of production of that steel?
- Ravi Jhunjhunwala:** No, either you make steel through the UHP grade, or you make steel through the HP grade. They are not substitutable. You have a design furnace, there is a transformer and that transformer has to give certain energy and the electrode can take only that much energy, for which it has to be capable. That is why it is UHP. So the whole system is the plant is designed in that way that it is prescribed by the furnace suppliers and you cannot say what quality or how much steel they can make using UHP or HP, it is not substitutable.



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**Arvind Sharma:** I just wanted to understand if you use UHP to produce steel, will the quality be good as compared to a non-UHP one? And will the cost be comparable or more than the non-UHP one?

**Ravi Jhunjhunwala:** Okay, I will explain this question. If you have 200 tons furnace which is supposed to churn out 200 tons of steel every 40 minutes, there has to be a transformer which will be of 140 MW and which will throw an energy at the rate of 100 kiloampere, which that electrode should be able to withstand. Now compared with the 30 tons furnace, using a 400 mm electrode, I mean 16-inch electrode, and which has to melt 20 tons in an hour or so, there you can use low power electrode. That is the difference between the ultra high power grade and the low power grade. So, it is economies of scale. Now you do not make steel in buckets anymore. You have to make steel in very large furnaces.

**Arvind Sharma:** A follow up question for this is because China is increasing the steel capacity and using the non-UHP grade electrode. So will the cost of production of Chinese steel will be less than what the other countries are producing? If that is the case, in case they do not use it for local consumption and they put it out in the world, will they have more competitive prices in that case?

**Ravi Jhunjhunwala:** It is exactly the other way around. Their cost of production will be more. If you look at the papers, there was some release they are setting some 105 MMT with 66 plants. So, if you divide an average, plant would be making 650,000 tons and now you do not set up plants of that production capacity. If the sizes are lower, your small plants of cost of production is actually higher.

**Arvind Sharma:** One more thing is regarding the scrap. World over it is increasing rapidly specifically in China and even in other countries, maybe also in India by 2020 because of the BS-VI might see that increase. So, if you produce steel via scrap because of a recent issue regarding the iron ore issue which has come up, if you produce via scrap out, you can only produce using the UHP grade, is that understanding correct?

**Ravi Jhunjhunwala:** No, again, that has nothing to do with that. If it is a smaller furnace can use scrap; can use other materials, so it is basically on the size of the furnace. It has nothing to do with UHP and HP. Kindly do not relate it with the availability of scrap. It actually depends upon the size of the furnace or the size of your plant.

**Arvind Sharma:** My last question will be more on the cash utilization plan. I know you have already answered it, but are you looking for both the phases, for example the backward integration as well as the forward integration for your kind of business?

**Ravi Jhunjhunwala:** We have just announced an expansion of the Electrode business, and as I said, there is a lot of work-in progress apart from electrode in some different areas, we are still not at a stage where we can really talk about it.



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**Arvind Sharma:** Last time another question I asked, you said you already have some discussion going on within the company on that level. Just a small curious question which I have is that regarding the graphite fines, because you are already making graphite electrodes, and there are some residue which can easily be sold to manufacturers across the world; for example, you can do more cross-selling to countries where you export. And if they are producing anodes material, they can easily use graphite fines and maybe you have another product to sell and add another revenue stream. Is that something which you are already thinking or do you have some progress on that line from the last con call?

**Ravi Jhunjhunwala:** No, the graphite fines are obviously being sold, they are not only sold in India, and we are exporting a lot of our graphite fines for various uses. Probably one of the uses what you just mentioned in the cathodes and anodes. What probably you are trying to ask is, we have been talking about venturing into an area where we will produce a couple of things which go into the lithium ion batteries. So, that is what I meant when I said that there are a couple of things which are still in the work-in progress; and we are looking at it seriously.

**Moderator:** Thank you. The next question is from the line of Devang Sanghvi from ICICI Securities. Please go ahead.

**Devang Sanghvi:** What I have seen there is a strong traction in steel production in US, majorly EF producer. Have you seen some amount of incremental demand from US this CY'19?

**Ravi Jhunjhunwala:** You are right, US produces about 70% of its steel through electric arc furnace, so in terms of percentage it is the largest electric arc furnace production country, and in the past year or so they have announced about 6 mt of additional electric arc furnace capacities. So that is one country where the growth is going to be the largest in terms of demand and we have been exporting to US for last 15 to 20 years. We have a fairly good knowledge of the country, we have strongly represented in some of the large customers in electrode and a lot of these capacities which are being created, this additional 6 mt is also being created by some of our existing customers.

**Devang Sanghvi:** So, this can actually partially compensate for the Iran volume loss, which is a fair judgment to estimate?

**Ravi Jhunjhunwala:** Not all. Obviously, we said our exports to Iran constitute at about 7-8%. And whatever we will get out of this additional capacity of US coming up, it cannot compensate. There is enough growth, I mean even if there is a 2-3% of growth happening in the electric arc furnace around the world, it should be a problem finding a market for another 5,000 - 6,000 tons which we have lost due to Iran.

**Moderator:** Thank you. The next question is from the line of Manoj Kulchandani, an individual investor. Please go ahead.



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**Manoj Kulchandani:** I just have a query. Recently Tokai has gone on records stating that nearly 20% of the overall sales will be shifting to an entry surcharge sale contract and in future they see nearly 50% of the contracts to have entry surcharge. Is HEG thinking along those lines, because according to me this brings stability to future earnings and the market will view the stock more favorably?

**Ravi Jhunjhunwala:** Actually, that is what Tokai is trying to do, but it is being met with a lukewarm response because what they are trying to do is they are trying to index it with the price of needle coke which customers are not wanting to sign on those. So they are trying. But, yes, we would have preferred such kind of a mechanism but the way we are watching the market, we do not want to come up with such an idea which is not accepted well. I do not think Tokai is being very successful in that.

**Manoj Kulchandani:** Also in the previous con call you had mentioned that NC is only required for UHP grade. Basically what is the raw material which is required for the lower grades and is it possible to actually increase the utilization by making more of the HP grade so basically it will add on to a bottom line with higher profit?

**Ravi Jhunjhunwala:** Capacity is subject to the product mix. When you make lower sizes, your capacity to make that drop actually. If you are making a large size of 28" or 30" electrode if you had although needle coke available, that gives a different set of number as compared to what you make, if you have to make a lot of small sizes. So, it drags down the capacity. The product mix is very important. So it is not that we can make all of it by small sizes that will drag it down even further, it is a balance.

**Manoj Kulchandani:** The 82% now is basically with the plant working on full tilt, is that it?

**Ravi Jhunjhunwala:** With the current product mix which is the needle coke we have and the balance of the small sizes we make.

**Manoj Kulchandani:** For the buyback, are the promoters intending on participating in it and up to what extent, can you please give some clarity on the same please?

**Gulshan Sakhuja:** Yes, promoters are participating 50% of their current holding in the buyback.

**Moderator:** Thank you. The next question is from the line of Bharath Jain, an individual investor. Please go ahead.

**Bharath Jain:** The minority investors at large have certain concerns; there is a lot of cloud over the prospects of the future. I am just talking about the retail investors. They are little concerned about, not everybody calculate the intrinsic value of the business, but we have done really well over the gone quarter and since there is earning lag in the quarter, how do you see the prospects going forward 12-to-24-months from now although you have clarified the demand seems to be very



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good, but needle coke seems to be hurting us, what reassuring words would you like to tell the minority investors?

**Ravi Jhunjhunwala:**

I do not think we said that needle coke is a concern. We only said that there is not enough needle coke available in the market but much more than the needle coke prices which have gone up, the electrode prices have gone up much-much more than that. So that is not a concern. Just to give you a very general answer to what you just asked, currently, we believe that the supply/demand is absolutely in balance, that capacity is about 700,000 tons if you look at the total capacity of the electrode production all over the world and the demand in the whole of 2018 and maybe 2019 is also very-very close to 700,000 tons. That is how the prices went up by 6, 7, 8x in the last two years. It is a very technology-oriented industry, there are very strong barriers to entry. We came into this business in 1977 and we are the last new company to have entered this business in the world. So entry barriers are really strong and it is not easy for the newcomer to come into this business and enter the market. Forget about the Greenfield, even Brownfield expansion that we have announced is taking us about three years to build. It will surely be even more in a foreign country. If it is three years in India, it will definitely be more, given the cost and labor constraints and everything that you have in other part of the world. So in the next three years as of now nobody has announced any new expansion or debottlenecking except....

**Bharath Jain:**

Would you say we are bullish on the graphite story, is it intact?

**Ravi Jhunjhunwala:**

What I am only trying to explain is that currently if the demand/supply is absolutely in balance, and there is only 20,000 tons of new expansion likely to come in three years time, this 20,000 tons on the current capacity and demand of 700,000 tons is about 3%. Even if we believe that the world is going to grow by just about 1% every year for the next 3 years, so that is where the equation is. We have taken this decision simply on this view that even if we take a very realistic number of 1.5% to 2% growth of this world in the next three years, what we are adding in the market is only 3% in three years. Now we could be terribly wrong if geopolitical situation changes, if there is a degrowth in the whole world in the next three or four years, then obviously our decision can be questioned three years down the road.

**Bharath Jain:**

You mentioned in the last conference call that we would become a debt-free company. Do we continue to remain a debt-free company for a short term or long term of working capital, how would you say that in two years we are a debt-free in terms of long-term and the short-term?

**Ravi Jhunjhunwala:**

For the foreseeable future, it will remain a debt-free company. Obviously, as one of your colleagues just asked this question, if we do decide to venture into an area, there are a couple of areas that we are looking at. So depending upon which one looks feasible, which one looks interesting from the business point of view, and how much money will be required to be diverted into that new area, it will all depend on that.



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- Bharath Jain:** As the needle coke prices have been going higher because there is a surge on the demand side from electric vehicles, would that take the cost out of hand for us well for all the graphite players around the world, because of the limited availability of needle coke at the moment and demand seems to be rising for the electric vehicles and we are heavily dependent on needle coke as well, so your take on that, would the cost of raw material were higher?
- Ravi Jhunjhunwala:** No, as my colleague just clarified, this particular grade of needle coke that the graphite industry needs, is not going anywhere for the lithium ion batteries or anything else, this is only required for the graphite industry.
- Bharath Jain:** And one question on the buyback side. It is very heartening that as the minority investors that the management is going ahead with the buyback despite the recent drop in price. As one of you mentioned that buyback is generally done, the management buy back quite amount of intrinsic value. So would the management be participating in buyback somewhere a question that minority is worried about, so what would you have to say on that?
- Ravi Jhunjhunwala:** I do not know why there is a question mark or people are worried about it. It is all in the public domain. Yes, on day-one when the board took the decision, the postal ballots happened, it is very clearly mentioned that yes, promoters are participating.
- Gulshan Sakhuja:** Currently, promoter stake is 61% and out of that promoters are participating to the extent of 50%.
- Moderator:** Thank you. The next question is from the line of Keshav Harlalka from PHH Securities. Please go ahead.
- Keshav Harlalka:** Will we get the buyback money before 31<sup>st</sup> March, 2019 which has been announced?
- Ravi Jhunjhunwala:** I can only tell you the procedure, we have completed the results of the AGM and the ballots are out. Our application to SEBI has gone about 10-days ago and it all depends on SEBI now. Whatever time they take to approve, that is the only thing we are waiting for.
- Keshav Harlalka:** Secondly, I wanted to know about your dividend policy. Is there a dividend policy of giving out 30% of the earnings as dividend?
- Ravi Jhunjhunwala:** It is a practice, I would not say a policy, but it has been in practice for last many-many years.
- Keshav Harlalka:** So If I assume that you are going to earn Rs.800 as EPS for the full year, would you be giving us a final dividend of Rs.200 plus, is that a fair assumption to make?
- Ravi Jhunjhunwala:** I have already said what I needed to say. We maintain 30% to 35% and there is no reason why we should reduce it.



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- Keshav Harlalka:** From whatever conversation I have got so far, there has been broadly a drop of 15% in prices in the current quarter vis-à-vis last quarter. So can we assume a profit of Rs.700 crore to Rs.750 crore band in the current quarter, can you give some comments on that?
- Ravi Jhunjhunwala:** No, we are unfortunately constrained by various regulations not to talk about very specific numbers.
- Keshav Harlalka:** In FY'10 we announced the capacity expansion from 66,000 MT to 80,000 MT and we had concluded the capacity expansion in FY'12, we had spent totally Rs.275 crore to get the capacity expansion of 14,000 tons. Have I got my numbers right?
- Ravi Jhunjhunwala:** It was more than that. Two, three power plant also at that time. So that was also there.
- Keshav Harlalka:** So when we are spending broadly Rs.300 crore for a capacity expansion of 14,000 tons, why are we spending Rs.1,200 crore for a capacity expansion for 20,000 tons, can you give me some color on that?
- Ravi Jhunjhunwala:** You will need to be a graphite expert and come down to our office to understand that. It is very complicated and you are comparing apples and oranges. What we are doing today and what we did seven years ago are very-very different things.
- Keshav Harlalka:** I remember two years back somebody had asked in the conference call, so we are not very clear about it, but 1,200 crore is on the higher side, that is all I can say?
- Ravi Jhunjhunwala:** I cannot go into the details of the technical things that we are doing, but what we are doing right now is the best in the world, then this is what it is going to cost. And we are not wanting to compromise on the quality.
- Moderator:** Thank you. we take next question is from the line of Subrata Sarkar from Mount Intra Finance. Please go ahead.
- Subrata Sarkar:** Graphtec India has come out that the spot prices corrected from 15000 to 12000 whereas their long-term contract at around 9,700 to 9,800, so there is still that \$3000 kind of a difference. What is our view on that -- will this spot price also come down to these long-term contract levels or are we experiencing that kind of a price right now and are we expecting this correction from here also sir?
- Ravi Jhunjhunwala:** You are right, Graphtec has mentioned in their concall about spot pricing being 12,000, I have read the transcript. And their long-term pricing in which they sold 60-65% of volume is around 9,700. So your figures are right, and that 30% whatever remains they intend to sell at 12,000, that is the intention. So I really cannot comment, but yes the price level of what they are indicating should be possible for them. In long-term what will happen, whether it will be close to their long-term contracted price or not, we cannot really comment.



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**Moderator:** Ladies and gentlemen, due to time constraints, we take one last question from the line of Parthiv Shah from Track On Stock Brokers. Please go ahead.

**Parthiv Shah:** What is the scope of synthetic graphite and how could it be at all disruptive to your core business of ultra high graphite electrodes?

**Ravi Jhunjhunwala:** Synthetic Graphite is a generic name, even our product chemical we will call it synthetic graphite. Why do you not do one thing? You give me a call on our office number, let us not put everybody on hold and I will get this answered from one of our technical experts.

**Parthiv Shah:** That will be helpful. Long back you source your technology from Pechiney, France. As I understand all these European majors and US companies and Japanese companies have stopped sharing their technologies for any new capex in graphite electrodes, especially the ultra high power. I was just wondering in your case, the new CAPEX that is coming in the UHP graphite electrodes, how difficult is going to be for you to source the technology, already you have in-house technology of the past, but can it be replicated again?

**Ravi Jhunjhunwala:** Absolutely, in 1992 since we separated from our foreign partners, we have been investing in later state of our equipments. If today you come and visit our plant, you will see this is one of the best plants in the world comparable to Japanese and comparable to plants in Europe, Graphtec plants. There has been a learning curve. We have been in this business for last 40-years. And yes, we do not need any foreign partner and it is very easy for us to just replicate what we have been doing. We have developed fairly very good understanding of this business.

**Moderator:** Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Ravi Jhunjhunwala for the closing comments.

**Ravi Jhunjhunwala:** Thank you very much, friends, and I look forward to speaking to you in the next concall with the good set of numbers.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of HEG Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.