



**“HEG Limited Q4 FY'21 Earnings Conference Call”**

**June 3, 2021**



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**MR. GULSHAN KUMAR SAKHUJA – CHIEF FINANCIAL OFFICER, HEG LIMITED**

**MODERATOR:** **MR. NAVIN AGARWAL – HEAD, INSTITUTIONAL EQUITIES, SKP SECURITIES LIMITED**



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**Moderator:** Good day, ladies and gentlemen, and welcome to HEG Limited Q4 & FY'21 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 now hand the conference over to Mr. Navin Agarwal, Head, Institutional Equities at SKP Securities Limited. Thank you, and over to you, sir.

**Navin Agarwal:** Good afternoon, ladies and gentlemen. On behalf of all of us at SKP Securities, it is my pleasure and privilege to welcome you to this Financial Results Conference Call with the Leadership Team at HEG Limited. We have with us Mr. Ravi Jhunjhunwala – Chairman, Managing Director and CEO of HEG Limited, along with his colleagues, Mr. Manish Gulati – Executive Director; Mr. Om Prakash Ajmera – Group CFO and Mr. Gulshan Kumar Sakhuja – CFO.

We will have with the Opening Remarks from Mr. Jhunjhunwala, followed by a Question-and-Answer Session. Over to you, Mr. Jhunjhunwala for your Opening Remarks. Thank you.

**Ravi Jhunjhunwala:** Friends, good morning, good afternoon and welcome to our Q4 & Full Year 2021 Concall. As you are all aware, India is reeling through the second wave of COVID pandemic. We have given top priority to the safety of our employees and put stringent controls at work places and offices including social distancing, use of mask, sanitizing, vaccination, extensive use of online interactions, work from home, etc., The outcome of that has been that today after initial spurt of cases at a plant in end-April early-May, we have no active cases at all at our plant currently.

Our results in this quarter were significantly better than the previous quarters and sales volumes were highest among all the four quarters of the year. I just like to explain to you. Our production cycle to produce electrodes is a very long one which is anywhere around six weeks to as long as four to five months for certain products. Along with this, our main raw material needle coke is imported all the way from US, UK or Japan. A combination of these two means that at any given time we do have to carry substantial stocks of not only the raw material but we always have to carry a large stock of work-in process also at different stages of production.

As you all know, the electrode prices as well as needle coke prices were very high about six to eight quarters ago when it started to drop steeply. This means that we have to write-off large chunk of money in the past few quarters as we may be carrying large amounts of raw material and WIP at a time when electrode demand started to fall steeply, leading to a decline in selling prices, resulting into company incurring heavy losses and according to the accounting practices, revalue all the stocks.



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With a strong rebound in the world economy including India post the first wave of COVID, especially in the steel sector, electrode demand started to pick up in the last quarter which saw the highest volume sales in the last year along with bottoming out of selling prices.

As far as IMF latest announcements, the global economy had shrunk by 3.3% in 2020 and is now projected to grow at about 6% in 2021, moderating to about 4.5% next year '22.

As you all know, steel has a very high correlation with the GDP growth in most of the countries. Steel demand has been severely impacted in the last year but was fortunate enough to end with the minor contraction of just about 0.2% towards the end of 2020. Steel prices not only in India but around world have witnessed a continuous increase in the past few quarters and current rolling prices are at all time high levels.

With the world without China producing about 47% of its steel through electric arc furnaces, which is what our target customer base is, it has a direct bearing on the demand of electrodes which has been going up quarter-after-quarter.

We have now fully exhausted our high cost of inventory, WIP, needle coke, while we're seeing a steady increase in the demand of our products month-after-month.

As you are aware, we sell our products to more than 30-countries with two-thirds of our production being exported, we are very well positioned to cater to the increasing demand of our products in future.

You are also aware that we had announced expansion of our 80,000 tons plant to 100,000 tons in November 2018. Fortunately, we had ordered most of our long delivery equipment before the COVID first struck in the last week of March, April 2020.

Construction activities had started in full swing in early 2020, but it did get impacted for a couple of months last year as well as about a month or so during the second wave of COVID last month. However, we still believe that the time loss would be minimal and we should be out in the market with our expanded quantities by the end of calendar year 2022 or at the latest early 2023. This is more or less what we had initially targeted for. So, the loss of time is very-very minimal, maybe a month or two, but all the equipments are coming at that time, only loss of these couple of months because of the COVID striking last year as well as this year.

We have been lucky with the timing of our expansion. When the world is seeing a very strong demand of steel and consequently electrodes, while except HEG, no other western graphite company has announced any expansion whatsoever.



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Now, turning to a couple of important announcements which we have seen in the last two months or so coming out of China. China's medium term goals of emission reduction and restricting steel production continues. They started by cutting inefficient steel capacity in one particular area near Beijing called Tangshan in February '21. They announced reduction of 38 million tons of blast furnace activities and they will target fresh round of steel capacity cuts to eliminate old and inefficient steel capacity and update them with efficient and less polluting capacities like electric arc furnaces to reduce carbon emissions.

More important than that is China has announced removal of a 13% VAT rebate on exports of 146 steel items and abolished import duty of 2.5% on pig iron, crude steel and scrap from 1<sup>st</sup> of May. Obviously, both of these mean good for electric arc furnace industry and consequently the electrode industry. These measures will assist rest of the world where 47% of steel comes out of electric arc furnace in creating new opportunities for expanding steel production.

In addition to above, China is also mulling an export duty on some finished steel items in a bid to further restrict export of steel and control inflation. This will achieve dual goals of Chinese government; one, further discourage steel exports and potentially reduce production, which will indirectly or directly help other parts of the world, all the other countries except China build more capacity and work at higher capacity utilization. And as I said, 47% of that steel comes out of electric arc furnace. Number two, increase domestic availability of steel and deflate domestic prices of steel in China.

As per the Chinese Iron and Steel Association's Chairman, the Chinese government aims to eliminate old and inefficient 236 million tons of crude steel capacity during its 14<sup>th</sup> five year plan from 2021 to 2025. So, you will all realize 236 million tons is a number which is like 2.5x more than the second largest country in the steel which is us, India. So, we're talking of some very-very large number here.

China also plans to update 221 million tons of capacity during the same time to reduce carbon emissions. At the cost of repetition, I'll again remind you that electric arc furnace emits one-fourth of carbon emissions for the extent of steel produced as compared to the blast furnace.

Meanwhile, the Ecology and Environment Ministry of China has announced that it will strengthen controls on energy-intensive polluting industry such as steel and aluminum to promote low carbon developments. All above development bodes well for steel production specially the electric arc furnace industry and consequently, the electrode demand from the rest of the world likely to go up. WSA, World Steel Association in its recent short range outlook forecast, that is the current year 2021, the world steel production is likely to grow by a sharp 5.8%.



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Going forward into the next few quarters for our company, we see a robust demand for our products all over the world and with our strong presence in most of the large steel producing countries, we are very well positioned to take advantage of this specially with the single largest plant of electrodes in the world that we have and the economies of scale that it offers which will further get strengthened in about eighteen months' time when our capacity goes up by about 25%.

With our four decades of experience in the international businesses, we expect to be a Supplier of Choice to our global and Indian customers.

With this, I would now hand over the floor to our CFO, Gulshan to take you through the Financial Numbers and then I along with our Executive Director, Manish Gulati and our Group CFO, Mr. Ajmera will be very happy to answer any query that you might have.

Over to you, Gulshan.

**Gulshan K Sakhuja:**

Thank you, sir. Good afternoon, friends. I will now briefly take you through the company's operating and financial performance for the quarter and year ended 31<sup>st</sup> March 2021.

For the quarter ended March '21, HEG recorded a revenue from operations of Rs.380 crores as against Rs.320 crores in the previous quarter and Rs.270 crores in the corresponding quarter of the last financial year. Revenue for the year saw a decrease of 42% to Rs.1,256 crores vs Rs.2,149 crores in the previous year. The performance was encouraged by improvement in volume which was offset by the lower realization as pricing continue to remain under pressure during the year. EBITDA including other income stood at Rs.20 crores in the quarter as against Rs.24 crores of previous quarter and a loss of Rs.455 crores in the corresponding quarter of last financial year. EBITDA also saw a decline of 51% on year-on-year basis to Rs.54 crores vs Rs.138 crores in the previous year on account of lower sales realization.

The company recorded a net loss of Rs.7 crores in the quarter as against profit of Rs.5 crores in the previous quarter and a loss of Rs.366 crores in the corresponding quarter of the last financial year. Further, profitability was on a muted side in Q4 of FY'21 because the company in accordance with the amended provisions of corporate social responsibility which mandates incurring of 2% of the average profit of three financial years, has incurred expenditure amounting to Rs.34.85 crores during the quarter ended 31<sup>st</sup> March 2021. Rs.0.14 crores during the quarter ended 31<sup>st</sup> December 2020 and Rs.41.86 crores during the financial year ended 31<sup>st</sup> March 2021 which has been included under the head other expenses in the published results. Furthermore, the company is eligible for various export incentives on the exports made. The Central Government of India had announced a new scheme of remission of duty and taxes on export product which has replaced the existing MEIS Scheme w.e.f. 1<sup>st</sup> Jan 2021. As the rates



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under RoDTEP have not been announced till date, the income on account of export incentives under the new scheme has not been recognized for the quarter ended 31<sup>st</sup> March 2021.

With respect to direct taxation, the company during the financial year ended 31<sup>st</sup> March '20 had elected to exercise the option permitted under Sec. 115BAA of Income Tax Act as introduced by taxation laws. Accordingly, the company had recognized provision for income tax and remeasured its deferred tax liability on the basis of rate prescribed in the said section. It has resulted in a reversal of deferred tax liability, amounting to Rs.32.66 crores and the impact of this change had been recognized in the year-ended 31<sup>st</sup> March 2020. Therefore, the income tax expense for the year ended 31<sup>st</sup> March 2021 is not comparable with the income tax expenses of the previous year ended 31<sup>st</sup> March 2020. Effective tax rate applicable to the company stood at 25.17%.

The company is operating its business by optimal utilization of available financial resources and also implemented stringent cost control measures across the organization to conserve cash. The company is long-term debt free and having a **treasury** size of nearly Rs.1,500 crores as on 31<sup>st</sup> March 2021, yielding average return of approximately 6% per annum.

Further, the board of directors have recommended a dividend at the rate of Rs.3 per equity share of the face value of Rs.10 each which is subject to approval of shareholders at the ensuing annual general meeting.

We would now like to address any questions or queries you have in your mind. Thank you.

**Moderator:**

Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Rahul from Sumitomo Capital. Please go ahead.

**Rahul:**

Firstly, I know you don't talk about prices but like could you speak about how the trends have been for both electrode and needle coke say like if it was ex-last quarter how it is currently in both domestic and exports market?

**Ravi Jhunjhunwala:**

As you rightly said, we don't discuss prices specifically but as I alluded in my opening remarks, prices are going up and they are going up practically every quarter. And in the current situation, we can't even bid for more than a quarter prices, whether it is an Indian market or international prices because our needle coke prices also changes every quarter. So, unless we are aware about the needle coke prices, it becomes almost impossible for us to announce in advance about electrode prices. But as I explained a minute ago, it's a very peculiar industry where raw material is all imported, so necessarily, you have to keep fairly large stock of at least two to three months. Secondly, given the long process cycle that we have, four, five weeks to four to five months, at any particular time, on any particular day, whether it is a good day or a bad day, whether it's a high market or a low market, we will always have this problem in this industry. So, currently,



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we are in a positive situation because we have reasonably priced needle coke, we have reasonably priced WIP. So, if the prices are going up, our margin increase but again it's a matter of time, I mean, three months, six months, nine months, again, the months we lost, these stocks obviously we will again get back to selling at a higher price or low price, whatever is the needle coke price, I mean, our prices will always be dictated by cost of needle coke.

**Rahul:** Sir, just to follow up on the answer you gave, so like how are you booking the contracts right now – is it only the volumes that we are booking or it's both volume and price we are booking? And if it's just volumes then could you give us like how much percentage of the capacity is being booked for FY'22?

**Ravi Jhunjunwala:** See, generally, as I explained, in this industry you more or less book on a quarterly basis except some very specific countries and within those specific countries, some very specific customers who tend to only buy on annual basis. The trend is that you normally talk about a quarterly price. So, giving you a very clear answer is really not possible. And as far as domestic market is concerned, there are a very few electric arc furnace companies so to say. So, there is no long-term commitment but you know more or less, I mean, what your market share is with the customer A and B and C. So, assume going forward that we will retain that customer and we will keep selling in the x-quantity that he used to buying from us. In the international market, it's slightly longer because obviously, it takes time. But your shipment let us say for July, August, September, we are right now in the middle of negotiating for the shipments of electrodes in Indian market as well as export market.

**Rahul:** But could you give a sense like for the July, August, the second quarter because your factories would also be operational now, how much percentage, what kind of utilization levels you would be running on and of that utilization levels, how much would have been booked by now?

**Ravi Jhunjunwala:** I will ask Manish to answer to that. He is more on the ground than me, but today, to give you a very clear straight answer, selling the volume is not a problem, so if we produce at 80% or 85% or 90%, selling that 85%, 90% is not an issue, the issue is just pricing. So, again to clarify, suppose if we have not booked that 80%, 85%, 90% now, we are not going to lose out on our dispatches in that quarter, I mean, we are confident that we will be able to sell everything that we produce.

**Rahul:** The other follow-up would be on the needle coke. So, like in the last super cycle or up cycle that we saw, there was a shift of needle coke towards EV battery manufacturing as well which I believe faded away. So, like how is the current scenario like how difficult it is to get needle coke?

**Ravi Jhunjunwala:** See, I like to clarify, it's not exactly right what you just said, I mean, while some quantity of the needle coke that we buy, while some quantity of that goes into the battery, it's not a very large



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volume. So, it's not exactly the same product that we are talking about. Every needle coke producer has a capacity for needle coke for the graphite industry. Also, has a capacity which is dedicated let's say to the battery. And it is not very easily switchable from A to B. So, if the market is extremely strong for let's say the graphite industry, all that capacity would be dedicated to the graphite industry. If the graphite industry is not doing well and the EV industry is doing extremely well, then a part of that needle coke which is meant for electrode would go to the battery garage. So, it is not really comparable of the same quality and the same product.

**Rahul:** With the change in the US government, are there any talks about removal of the sanction on Iran? Like would we be anytime seeing some dispatches to Iran?

**Ravi Jhunjhunwala:** We are hearing the same thing that you hear from the press. I mean, it's a matter of time, maybe a month, maybe two months, we don't have any more information than any one of you have. Of course, it's on the way, it will go out.

**Rahul:** Sir, could you remind us, when you supplied last, how much quantity was supplied to Iran?

**Manish Gulati:** In good times, Iran was one of a very significant customer and we went up to the extent of even supplying 10% to 12% to even as high as an average of 15% of our produce in Iran. But when Iran stopped, we had to reallocate that 10-15% of the tonnage to the rest of the 30 countries we supply to. So, initially it was a little difficult to do so. And yes, almost in every major steel producing nation of the world. So, that quantity got overtime, got absorbed in other markets. So, even without Iran, we are able to achieve good capacity utilization compared to our peer group in the industry.

**Rahul:** Manish ji, could you give the capacity utilization number for the last quarter and what you are planning to run in the...?

**Manish Gulati:** Rahul, since the Q4 you can call us at 85% and we believe that this will be the level which will hold good for the next two, three quarters so far as we have visibility.

**Rahul:** No, but you said 85% since Q4...?

**Manish Gulati:** Yes, Q4 FY'2021. See, our sales wise, we were almost at 85% level and that level continues in Q1 of this year April to June and going forward we see that we can probably operate at that level considering the demand as far as we can see.

**Rahul:** So, despite the lockdowns, you are allowed to operate but still we operate at 85% during the month of April and May?



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- Manish Gulati:** April and May, yes, that's right. See, India has the second wave impact too much and as we are exporting two-thirds of our production in so many countries, so we could just retain that level of capacity utilization and sales.
- Ravi Jhunjunwala:** But our plant actually were not closed down even for a day, last year as well as this year, capacity utilization may have gone down by about 15%, 20% or 10% on some particular product, but it was never shutdown.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.
- Bhavin Chheda:** In the quarter, there was a sharp increase in other expenses. Was that a one-off there?
- Gulshan K Sakhuja:** Yes.
- Ravi Jhunjunwala:** I think Gulshan explained to you because of the sudden change in the CSR rules, up till last year we could have gotten away by not spending 2%, and this year the law changed that we had to spend the 2% of the average last three years profit against CSR. And in the event the companies were not able to spend 2%, then we have to either send it to the Prime Minister's Relief Fund or six, seven different funds given by the government or we have to carry it forward by booking in the P&L account to be spent this year. This is part of our notes in the results.
- Bhavin Chheda:** So, it's higher CSR expense basically you are saying?
- Gulshan K Sakhuja:** Yes, it's Rs.35 crores relating to CSR during the quarter out of Rs.120 crores
- Bhavin Chheda:** By the end of this year, has the high cost needle coke all been resumed or accounted for in the inventory cost and Q4 margin adjusting for this CSR were normalized margins or there were a few high cost inventory still there?
- Ravi Jhunjunwala:** As I said in my opening remarks, it's all exhausted now. We don't have any high cost inventory for the needle coke.
- Bhavin Chheda:** It's a normal quarterly contracts on the needle coke also and on the electrodes also more or less?
- Ravi Jhunjunwala:** Yes, more or less.
- Bhavin Chheda:** And you mentioned you operated at around 85% utilization for Q4 and currently also the same utilization is going on?
- Ravi Jhunjunwala:** More or less, yes.



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**Bhavin Chheda:** Other thing I got from your commentary is you mentioned since your business is mix of both exports and domestic market and exports you normally have to plan much ahead of the domestic market, but the contracts you said are quarterly. So, how does that work out because if you are booking September month volumes for the export market, but I think needle coke will get contracted later, so is there still a mismatch between these two?

**Ravi Jhunjunwala:** That will always be there, I mean, in a long product cycle of six weeks to five months, that will always be there, you cannot match needle coke versus selling prices. There are lots of large customers in the world market where they would not even talk about the quarterly pricing, they would insist on at least six months if not yearly. So, that much will be there. It's only in the domestic market that you can manage to match the needle coke price and the selling price. By experience, you can sense what's happening. So, you can always try to defer your sales or purchases of needle coke.

**Bhavin Chheda:** Is there a spot element in your volumes also or your entire volumes are getting contracted now in electrode side?

**Manish Gulati:** Now the way business is going on, there is a three month we are booking at a time. So, now this is all going to our regular customers. We don't normally encourage the spot opportunities here and there for customers who are not with us for the long run. So, whatever is happening, there was a time in 2018 and there was a contract and there was some on spot, now it is more stable. Our customers understand that yes, these graphite companies do not have contracts valid for six months or one year, so they are also doing three months at a time and we are also selling three months at a time. So, now as we speak, nothing like a spot something, everything which is we are booking with our three years old customers.

**Bhavin Chheda:** I believe on the expansion that was a Rs.1,200 crores project, right. How much have you spent till date on that project?

**Ravi Jhunjunwala:** See, out of that Rs.1,200 crores, till March '21 about Rs.455, 456 crores has been spent and the plan for this quarter April to June is around Rs.120-140 crores depending upon the shipments schedules of our equipments coming in. For the whole of the year '21-22, probably it will be around Rs.600 crores. So, Rs.450 crores spent, Rs.600 crores is planned for '21-22 and the rest will spill over to Rs.'22-23.

**Bhavin Chheda:** What is the commissioning bid?

**Ravi Jhunjunwala:** By end of '2022, as far as our construction and establishment, should definitely be ready and the commercial production should be out from early '2023. So, we are also watching the situation. Two months delay has happened. And every time this COVID wave comes, the migrant labor



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goes away, we again have to get them back, again, work resumes. So, we are still at early '2023 target for the expanded volumes.

**Bhavin Chheda:** Last question on the China thing because that would be a big, now that you are planning to replace almost 230 mt of new capacity by closing down the old ones which are inefficient or which due to decarbonization, do we have data on this 230 mt, how much is coming via blast furnace route and how much is coming via electric arc furnace route?

**Ravi Jhunjhunwala:** See, electric arc furnace was a very small portion, as small as 5%, 6% in 2016. So, whatever replacement they talk about it is always about the blast furnace. So, whenever they are saying a figure, there is a public news what we shared 236 mmt, it is blast furnaces because electric arc furnace is only catching up from a level of being 5% to 6% in 2016-17, it is only now that it has reached a level of about 15%, while rest of the world is around 47%. So, there were a lot of catch up to do. So, whatever development in the last 10, 20-years capacity expansions happened, historically, they have all been the blast furnaces and smaller inefficient polluting blast furnaces. This is what they want to get rid off. So, 236 mmt is all about blast furnaces.

**Bhavin Chheda:** That I know that, they will be shutting down that much an incremental matching capacity would come. I am saying the new capacity what they plan to put replacing the old one which are closed, that can be any of the routes, right, they don't have to match blast with blast?

**Ravi Jhunjhunwala:** Yes, but the trend is going to be the EF which is going to catch up, and reach the rest of the developed world, of course, they maybe a new blast furnace, more efficient here and there but largely the shift will go to electric arc furnaces because if you read their papers, they were talking about reaching a level of 20% of electric arc steel production which means say 200 mmt and they are still at 120, 140. So, just imagine if they are going to catch up with the rest of the world later at 40% someday, they will be making 400 mmt only from EF route. So, the path is very clear. It is just the speed with which they do it. And their own local scrap generation has also increased, there is a forecast, there is the local scrap generation will go up to 300 mmt by year of 2025. So, it all remains to be seen. Long-term trends are very-very clear and this is they have been doing it year-after-year. But yes, they save more, they are able to do less, that is all what is happening. But they seem pretty serious about this change.

**Moderator:** Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.

**Sonali Salgaonkar:** Sir, my first question is regarding the CSR expense. I mean, how should we look at it going forward – should we look at this about Rs.40 crores as a recurring expense every year or this is like once in a two or three years that we have to deposit in the CSR front?



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**Ravi Jhunjunwala:** Sonali, you have asked something which is very dear to my heart these days. That number will obviously depend upon the profit. The regulation is that you need to spend 2% of your previous three years profit on CSR. So, it's not our choice. I mean, our choice is that from 2% they can go to 3%. The government will welcome that. But we cannot go from 2% to 1%. We have to spend that 2%. If we don't spend, then in any case we have to take a hit on the P&L for that year and that residual amount has to go to the PM's relief fund and the likes of PM fund, there are 10, 12 of them. So, if that number is 40, 45, 50, I will be very happy because that's a derived number from 2%. So, higher the profit, the higher that number going to be.

**Sonali Salgaonkar:** Sir, my second question is regarding the demand scenario. We understand that about 65-70% of our top line was exported. So, apart from the COVID disruption in India, which probably would not impact us as much, how are the other economies fairing up in demand, I mean, Europe would be our main continent considering that EF is very high as a percentage over there as well as Middle East. So, how is the demand scenario panning in the other geographies right now?

**Ravi Jhunjunwala:** See, in our case, Europe is in fact the lowest. It's not right what you just said that Europe gives us more electric arc furnace. And the other reason is that in our case there is an anti-dumping duty the EU authorities had imposed on us, good 15, 16-years ago which keeps getting extended and extended all the time. So, our exports to Europe is in fact pretty small, we are just there because we want to keep our toe hold in that. The day this import duty is abolished, then we can go very aggressively. And in terms of percentage of steel through electric arc furnace, the number one is US, 70% of the steel in US gets produced from the electric arc furnace. So, that is one of our very large market. You talked about Middle East. Middle East in fact has 100% of steel through electric arc furnace, only because the power cost is extremely cheap and the electric arc furnace needs a lot of power. So, basically as Manish said, we are exporting to more than 30, 35 countries including the South American companies, African countries and Asian countries. So, basically the steel industry in the whole world as I said produces more than 47%, 48%. And that percentage keeps going up and up and up because no newer blast furnace capacities are coming up anywhere in the world except China and India in some cases. So, any growth which happens in the steel industry outside of China typically happen on electric arc furnace, I mean, just to give you an example, US is adding about 50 mt of new electric arc furnace capacity between now and end of next year. We have the names, we have the location, we know what size plant, what size of electrode, what quality of electrode they will be needing. So, 50 mt is a very large number in the Indian context. We produce 110 mt which is adding 15 mt of only electric arc furnace and that is 100%, I mean, they are adding 15 mt and the entire 15 mt on electric arc furnace. This is only the next 18-months I am talking about.

**Sonali Salgaonkar:** Sir, my third question was regarding the pricing of electrode. I understand we do not talk about in terms of absolute pricing. But it would be helpful if you could share the quantum of increase



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YTD say from June this year to right now what could be the approximate increase in the electrode prices?

**Manish Gulati:** This is going to be very-very rough and if we are talking about just quarter-to-quarter, probably we are talking in terms of 20% or something but again this is a very-very ballpark.

**Ravi Jhunjhunwala:** Fortunately or unfortunately we are meeting today in early June and we are talking about July, August, September, which is only a month away. So, these discussions have just started, I mean, it is a very-very fresh discussion. In the next 10, 15-days we will be able to give you very firm answer because these discussions have just started or about to start in the next two, three days.

**Sonali Salgaonkar:** My last question is you mentioned about the capacity utilization in Q4. So, sir in FY'21, will the capacity utilization be about 70% for us versus 60% in FY'20?

**Manish Gulati:** Yes, if you take the whole year including the first COVID stuck in April to June, that was bad, it was less than 50%, so if we have combined everything, it's about lower 70s in the year of 2021. In Q4, we are working at 85% of last year and we continue to do that this quarter. And one or two quarters more are visible that we should be at this level.

**Moderator:** Thank you. The next question is from the line of Dhawal Doshi from Pinpoint Asset Management. Please go ahead.

**Dhawal Doshi:** Sir, I understand you are refraining a bit in terms of giving some color in terms of the pricing. If you can just elaborate what was the Q4 average realization and Q1 is already contracted. So, at least some sense out over there in percentage terms it's fine?

**Manish Gulati:** I think the same question is asked in a different way. I think we would not be able to disclose this because then everybody can add it up, so by the way ask the price and then the percentage increase, then you can easily estimate and fairly not nice on our part to do that especially when...

**Ravi Jhunjhunwala:** We are a one product company. So, once we have the turnover and 80%, 85% capacity utilization, it's arithmetically very easy to even calculate that.

**Dhawal Doshi:** Going ahead sir, in terms of the outlook, you did mention in your opening remarks that it's looking quite positive and prices have been just moving up each quarter. What can actually come as a spoiler to this -- can China capacities once again come and be a spoiler the way they were during the last cycle or you don't see that kind of a scenario playing out in the current environment?

**Ravi Jhunjhunwala:** No, Dhawal, China was never a spoiler, I mean, just to repeat what we have already spoken about many times, we or let's say any other western player of graphite, we don't compete with



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China for let's say 65-70% of our production which is called ultra high power. China doesn't produce the high power electrode which the rest of the world requires. So, China was never a spoiler as far as 70% of the ultra high power market was concerned because no one of us exporting to China, nor China is exporting and competing with any of us in Europe or America or Middle East or anywhere. China is a spoiler for the 25%, 30% of the lower grade what we call the non-UHP. So, yes, to that extent, China can spoil but given the kind of growth that China has seen in electric arc furnace as Manish explained, only three years ago, they had only 5% of their steel through electric arc furnace which is currently at about 16%, 17% and if we believe any of these announcements that they're talking about, they're talking of replacing 200, 250 mt of blast furnace to electric arc furnace and all the indications and all the new announcements that they have made, one or two that I spoke about like removing the import duty on scrap, mean, obviously, it shows the intent they want to make electric arc furnace more competitive so they remove the duty on import, they are even considering an export duty on steel exports. Our main advantage that we had in '17-18 and '18-19 was because China's export of steel practically came down to half over a three, four year period from about 115 mt currently to 55 mt. So, the drop of 60, 65 mt of steel that they were doing to the rest of the world which came down, that help the rest of the world to produce another additional 60 mt of steel because they suddenly found gap of 60 mt not coming from China. And 47% of that steel is through the electric arc furnace. So, suddenly all the electric arc furnaces which were either not operating or operating at a lower capacity utilization in any part of the world minus China, certainly started operating. That's where we see the demand of electrode rising. So, this is what China has recently done all in the last two months or so. It's reimposing again by saying that they want to close another 200, 250 mt of blast furnace to replace the electric arc furnaces.

**Dhawal Doshi:** Do we envisage a situation it's not going to happen immediately, but China could actually be an importer of high grade UHPs or as in high grade products or that you don't think so is going to be a situation?

**Ravi Jhunjhunwala:** It would happen one day but if you see the Chinese import, export today of electrodes, the kind of electric arc furnaces that they are replacing with the 50 mt of electric arc furnace that they were doing for last many-many years, currently is in the region of 140, 150 mt. so they have added 100 mt of electric arc furnace in the last three, four years. But they are not importing any of these UHP or high power electrodes from anybody else outside of China. The kind of furnaces that they have built at least up till today, they don't really need real ultra high power electrodes which is what we or Graphite India or other players in Japan and US, each one of us produces.

**Dhawal Doshi:** In terms of the global capacity, what portion of the mothballs capacity can actually be revived in your estimate given the kind of surge in demand that we are seeing in the US and Europe markets?



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**Ravi Jhunjunwala:** Currently speaking, there is only one plant which was closed down in Austria about three, four years ago. That's the only mothball excess capacity which is existing anywhere in the world. Everything else has already restarted in the last 12-months or so. That's a small 25,000 ton plant and basically that plant produces mostly non-ultra high power.

**Dhawal Doshi:** So, we don't really see a supply issue as well as far as the industry is concerned?

**Ravi Jhunjunwala:** Nothing beyond this 20,000, 25,000 tons and it's a small plant and it produces non-UHP electrodes and it's probably one of the most expensive plants in terms of cost of production. It will be very difficult decision to restart. You can't switch on and switch off a plant at your will. So, if you start the plant, you have to really take a very conscious decision about the market being good or bad for the next five years at least.

**Dhawal Doshi:** Just one more question on the contract structure if I may. When we changed from annual six monthly contracts to quarterly contracts, both for needle coke as well as graphite, I believe there were some kind of a formula or an adjustment factor that you were working with in terms of needle coke prices, we at least put in a multiplier of 1.2 in terms of margins and revising our graphite electrode pricing accordingly. Does that still prevail or that is no longer the case?

**Manish Gulati:** No, there was never such a formula that if you multiply by 1.2% you get to the -- no-no, not at all, we never had this kind of a formula. Of course, since we will go with the major cost in electrode making, so obviously, we have to watch for all our input cost and only on the base of that we can quote in the market. So, there about three years back in a stable environment, we had annual contracts from needle coke suppliers and on the back of that we used to make annual contract with our customers. But then this market went hard and then our needle coke suppliers started giving quarterly pricing and we did the same with our customers. So, there is no set formula to that. It's all market supply and demand and that's what will continue this quarterly pricing.

**Moderator:** Thank you. The next question is from the line of Pratik Roy from B&K Securities. Please go ahead.

**Pratik Roy:** My question is that recently China steel prices going down, there was a news in the market that they are going to cut production. Even though that production cut doesn't happen because they are saying that how much they cut the production, that can be mitigated by EF route. And if they stop the investment on the steel part in the near future and industry infrastructure and all, so how much it is sustainable this EF route of steel margin which will impact the graphite electrode requirement. Can you please explain something on that means how the pricing will support the demand?



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**Manish Gulati:** Let me put it this way that you will see that Chinese steel production for the last few quarters have been growing little by a bit. But you see despite that growth, they are sitting with a lot of under, underutilized capacity which is inefficient. So, their effort is to close that down and replace with the more efficient capacity with electric arc furnaces. So, now what you are talking about how this will translate into electrode pricing, see, if they are going to be increasing the steel making through the EF route, of course, the graphite electrode demand is going to increase. And that will have favorable impact on the electrode pricing, whether it is supply domestically to them by the Chinese producers or maybe they start to import a little bit. So, that is how the overall market size increases, the overall market demand for electrode increases. Of course, it will have a favorable impact on electrode prices.

**Pratik Roy:** That is definitely true, but my point is that if the steel price will sustain in the near-term maybe in the second half of this year or maybe next year, so is it possible to continue with the EF route of production and that will maintain the graphite electrode demand that we are anticipating right now?

**Ravi Jhunjunwala:** Yes. See, right now, the steel prices are at record levels. You have seen doubling of prices in a year. And many a times there is a talk about cost of steel making from the blast furnace route or from the EF route. But there are certain enabling factors for blast furnaces and certain enabling factors for electric arc furnaces. As the scrap comes back, more and more into rotation, the electric arc furnace we have for steel making becomes more and more viable. And the kind of capital cost we have to put in for blast furnace and kind of the carbon emissions you have due to so many restrictions, the way iron ore jumps up and down and more and more restrictions on coal mining, see, all these factors eventually have become enablers to push towards steel making.

**Pratik Roy:** What would be your observation on the needle coke price, how long it will sustain or is there enough chances that it may go down, maybe I believe that 1Q and 2Q will be good because we have procured the needle coke at a lower level and already we have exhausted our inventory. So, can we believe that for FY'22 full year or FY'23 maintain this margin? What is your view on the needle coke price in the near-term?

**Ravi Jhunjunwala:** As long as we have a healthy spread between the two, we are fine. If you look at the last year, that was unique. We were carrying a lot of inventory from past year although we have written it off at the close of '19-20, but still they were on the higher side. And just talking theoretically, we would have got needle coke price at that price of last year and sold electrode at that price, we would have still maintained a margin. Because of our process also, such a large value of inventory, raw material, WIP, finished, it took us a whole year to get out of it. So, going forward we have a spread between the two. We should be fine. And of course, when electrode prices go up, needle coke supplies also keep pushing up prices. That's a given.



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**Pratik Roy:** That is given, but that needle coke price is not matching that you mentioned in the earlier statement. So, that is the concern. My concern is that this margin will expand further for 1Q, 2Q, that is for sure. But 3Q and 4Q if these prices go up and we can't pass on the price, then that will average out the whole year profitability?

**Ravi Jhunjunwala:** If steel industry keeps doing good, if there is real demand in the market, electrode industry does good and the needle coke industry also does good. So, we all follow the steel industry which is at present doing good and likely to do good for the rest of the year because there is real demand in the market.

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

**Manish Sonthalia:** I just want to understand a basic conceptual thing. Last time last upcycle what we saw was, there was a reduction in exports out of China and we have seen graphite electrode prices as even as high as \$14,000. Now, in this cycle, we are in a situation where China is disincentivizing, export, you will have much lesser export out of China, you don't have any increase in meaningful production of graphite electrode, the UHP category, you really don't have too much of increase in needle coke capacity, so, I mean, theoretically, is the disconnect because if we have seen the graphite electrode prices touch low levels in the last upcycle, why should it not happen in this cycle?

**Ravi Jhunjunwala:** We wish that to happen actually. But we want to be very careful about it. You see, how much eventually China export will drop, that part will certainly be made by the rest of the world, which makes 47% through the electric arc furnace. So, that is all very well. Now, that part whether we will be at that time of '17-18, that we cannot really say, Yes, we should avail the margins.

**Manish Sonthalia:** No, my point is that theoretical construct is valid, right, if there are lesser exports out of China, and there is no meaningful increase in production of graphite electrode capacity all over the world and there is increased steel consumption, then where will the electrodes come from?

**Ravi Jhunjunwala:** If let's say steel exports drop by another 20 million metric tons, multiply by let's say two Kg, so theoretically, the demand in the rest of the world goes up by about 40,000 tons of electrodes. Now, considering the present capacity utilization of the industry, we have to see if there are electrode factories in the western world who can absorb and we have headroom left on capacity utilization. We are at 85. So, somebody is at 60s, 70s. So, that's, that's how you look at it. And what is the additional demand coming for this year electric arc furnaces. Manish ji, you are 100% right in what you are saying, I mean, obviously, that is very suitable for us what you're saying and that is also at least my theory that with no electrode, the meaningful expansion happening. And as we have seen, even after 40, 45 years of experience, it takes us a good three years to build a 25% Brownfield expansions. And again to remind you, there has been no new Greenfield



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plant in the last 30, 35 years anywhere in the world. So, it is a very long gestation cycle even to expand by another 25,000, 30,000 tons capacity anywhere in the world, because this is the typical nature of this industry, there are certain equipments, which get produced only once in 10 years, because these are very specific equipments, which is only required for our industry. And there have been no newcomers, there have been no new expansions. So, obviously, it's a one off kind of equipment for all the suppliers. So, you're absolutely right, I mean, if the Chinese exports keep coming down, they have put import duty on import of steel, they removed the 2% duty on scrap. So, all the indications are favorable to us. I hope you turn out to be 100% correct.

**Manish Sonthalia:** In this context, I just want to understand between the last cycle and let's say 2017-18 and now, how much of a global increase in needle capacity has happened?

**Ravi Jhunjunwala:** Zero.

**Moderator:** Thank you. The next question is a follow up from the line of Rahul from Sumitomo Capital. Please go ahead.

**Rahul:** So, on Europe, you mentioned that you have anti-dumping duty, but there has been a news article saying that there would be an anti-dumping duty on Chinese electrode as well?

**Ravi Jhunjunwala:** Yes, which is again positive for us. As I said, we are only competing with China for the low grade non UHP electrode because China doesn't produce the kind of UHP electrodes that most of the European and American customers need. So, yes, if they end up putting a 20%, 30%, 40% import duty on Chinese imports, that will help our non-UHP, the lower segment to go to Europe.

**Rahul:** How much is dumping duty on you?

**Ravi Jhunjunwala:** 7%?

**Rahul:** So, anything above 7% that is being implemented on Chinese electrode, would be beneficial for you?

**Ravi Jhunjunwala:** Exactly. And just to remind you, US has already imposed a duty on Chinese import of electrodes which is as high as 139%.

**Rahul:** Do you see the impact of increase not only in the HP but this would impact UHP prices as well in Europe?

**Ravi Jhunjunwala:** Yes, most certainly. Not because of China as such, but UHP prices will increase because of the increase in electric arc furnace steel production in rest of the world. And the HP prices would



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increase because if they will have a higher duty level which is expected, those prices will increase because of that.

**Rahul:** Just what would be the share of your capacities, I mean, like how much do you produce HP versus UHP?

**Ravi Jhunjhunwala:** It varies year-after-year depending upon which is more profitable to make. But you can say 70:30, just hovers around that figure.

**Rahul:** What would be the price difference between the two, because I believe, for non UHP, we use the low-grade needle coke?

**Ravi Jhunjhunwala:** Again, there is no set formula there, I mean, needle coke prices go higher much more than the Indian coke price. So, there's no formula because the raw material is very, very different.

**Rahul:** Another thing would be on this China thing. Just wanted to understand, like, if China adds a more EF capacity, there would be more electrode consumption that would happen in China which would be of low grade, and they would be exporting less. So, do you see that, I mean, like you would be a beneficiary of it because we don't compare with Chinese electrode, so --?

**Manish Gulati:** Of course, I mean, to that extent, if China keeps adding more and more electric arc furnace and if China keeps consuming more and more electrodes within China, obviously to that extent we have less competition in the lower end of the market, I mean, let's say, two, three years ago, whatever China was dumping in India, this 5% to 7.5% duty, if I remember correctly, that figure has come down by maybe 75%, 80%, I mean, the imports from China currently are maybe about 20%, 25% of what it used to be three, four years ago. Because China doesn't want to export, I mean, there is local market for electrodes, the non-UHP electrodes in China, so huge today. They don't want to export more to India or any other place.

**Rahul:** And sir, on this capacity expansion, you said like you would commission the capacity by like end of 2022 calendar year. So, would it require approvals, I mean, like from the customer on the product quality or the volumes coming out of this expansion would...

**Manish Gulati:** No-no, the customer doesn't care whether we are expanding or not expanding, I mean, it's a Brownfield expansion, it's not a new plant. So, he doesn't care whether we are expanding or supplying from the old stock or the old capacities, I mean, for him, he trusts the name and the brand.

**Rahul:** So, the new capacity would not need any more approvals?



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**Manish Gulati:** No, no, no, the customer will not ask us whether you're supplying from X, Y or Z capacity. But in any case, I mean, the whole purpose of expansion of this 25% is not just a quantitative increase, but it's a qualitative increase also. With the kind of equipments that we are putting up right now, not only going to be cost wise more efficient, but even on the quality front.

**Rahul:** Of this 20,000, how much would be the nipples capacity in that, I mean, that would be similar, because, what I remember that used to be a bottleneck while producing electrodes?

**Manish Gulati:** Out of this 1 lakh tons, nipples would be of 10,000 tons and rest will be electrode, extrusion out of that. So, because once we take the nipples out of the mother plant to a new plant, then this plant can process much more electrodes because it frees up capacity, because nipples eat up three times more capacity to the extent they are made. So, once you take nipples to the new plant, then this plant can produce more. So, this one can then make 80 and rest comes from them.

**Ravi Jhunjhunwala:** In simple language, you see, what Manish is trying to say is this 20,000 tons expansion plant which is coming within the same premises, it's basically to produce nipples for the entire 100,000 tons capacity. So, by producing today in our 80,000 tons plant, we produce electrodes as well as nipples. So, what we are doing right now is putting up a totally new dedicated nipple plant, which we call 20,000 tons. So, by shifting the entire production of nipples from current plant to the new plant, and as Manish said, the nipple takes between three to four times of capacity, because of the long duration and the long cycle it has, so it frees up to that extent the old plants, so old plant which was let's say producing X quantity of nipples for 80,000 tons with three times more capacity usage, so that goes to the new plant with the result old plant now has a capacity of let's say, 90,000 tons of electrodes only while this new plant can give me 10,000 tons of nipples which are required for let's say 90,000 tons of electrodes.

**Rahul:** Firstly, like what would be the current inventory level for electrode? I believe that was another reason why the prices went down because most of the steel mill were sitting on huge inventory. So, how is the current level? Secondly, utilization level which is 85%, is there anything that stops us from going to 95% or say even 98% or 100%?

**Manish Gulati:** I will answer the second question first. The nameplate capacity of 100% is with the ideal situation and ideal product mix. So, although every company or every plant inches towards it, but somewhere stop around 90%, 95%. So, that is the answer. Any plant in the world can go up to this level

**Rahul:** Right, but like what my question is if the demand is strong, is there anything that would stop us from going from 85% to 95%?

**Ravi Jhunjhunwala:** Nothing stops us but in the practical life that we are living in, as I said, the minimum time that it takes to produce an electrode is about six weeks, longest is about five months. And we have



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five very, very different processes, where these electrodes move within this five, six weeks to five months. And a lot of handling happens, a lot of movement happens, and then the processes are extremely long. So, there is always some mismatch here and there. I mean, even in the perfect world, when you're handling something for, let's say, four to five months from place A to B to C to D to E, a small break down, and let's say process four, a process D, hampers everything that you have done in A, B, C until you have rectified the problem of four. Although you have enough capacity, enough production from one to three, you lose that because there is a one day break down or a two day break down in number four. Especially an industry like electrode, which is a very, very long cycle industry, it is not practical to even assume that we will reach anywhere close to 95%, 100%, maybe with a little bit of luck and if everything works like clock work, one could assume 90%, 92%. But even in the '17, '18 and '19 market where the electrode prices were like 5x, 7x, 8x for the lowest price, if you look at every company's data, I mean, nobody went beyond 90%, 92%.

**Rahul:** I totally understand that, but my question was like from 85%, to say what the maximum optimum capacity, I mean, there's nothing like raw material shortage or workforce or labor force shortage that would stop us?

**Ravi Jhunjunwala:** No, you're right, I mean, theoretically, we could reach a level of 90 -- and obviously, we are all striving for that 90. It's not to say that we are not striving for reaching 90%, 92%, but if we reach 90%, 92%, we will be extremely happy. It's not easy to make sure that everything works clockwork when you have five or six processes going into six weeks to five months and things like that. Even a small forklift shut down for a day hamper the movement of electrodes, I mean, the large electrodes can be as large as 1, 2 tons. You can't even move them without the correct forklift and all those kinds of things.

**Rahul:** My first question was like how is the current inventory at steel mills for electrode, hasn't come down significantly or it's huge?

**Ravi Jhunjunwala:** Now, most of the steel mills, they have returned to pre-levels, market was very hard. So, any company, anywhere in the world, if it was working at a month, went up to as high as four months, six months, they just wanted to book, book, book and book more electrodes. So, they've all returned to those pre-levels. Depends upon where the steel company is located. Steel companies which are in Middle East, they know there is no graphite company nearby, the nearest is us. So, they normally would give one to two months. A company in America would keep 15, 20 days because they know that there are two, three domestic suppliers. Same way for India if they know there are two big suppliers in India, they would work at less than a month inventory. So, now the supply chain is very lean, the customers do not have excess inventories at all. In fact, it took a little more time to correct. This should have got corrected six, eight months back because of COVID and all this steel production dropping in rest of the world. It just prolonged by another



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two quarters. But we and as well as our peer group in the industry, we all are confident that the inventories are all over by December '20. So, now we can see the real demand coming.

**Moderator:** Thank you. We take the next question from our Vishal Chandak from DAM Capital. Please go ahead.

**Vishal Chandak:** Just wanted to understand in terms of your order books. You are already booked till the next six months or you are already booked for the next nine months in the current environment?

**Ravi Jhunjunwala:** I have discussed this quite a bit in different ways, Vishal. As a policy, when needle coke prices are going up, it is obviously more practical to talk about at least in the domestic market on a quarterly basis. In the export market, it takes 30, 40 days to ship and 20, 30 days for them to receive and things like that. We're more talking of between three to six months. So, there is no fixed policy as such. I mean, in current environment, we would like to delay the commitment as long as possible, because it's a rising market, we don't see too many electrodes being available to meet all the demand from electric arc furnace industry. To give you a practical example, I mean, we are ending the current quarter of June in 20, 30 days, we have just started talking to our domestic customers for July-September quarter. So, that is basically the answer. And for exports, obviously, I mean, for July, August, September we have more or less all the quantities and the orders and the prices in place, either verbally or in writing.

**Vishal Chandak:** You just mentioned by December'22 I think the expansion comes in picture -- it gets commissioned, right?

**Ravi Jhunjunwala:** Yes. Yes.

**Vishal Chandak:** And post that our capacity would be about one lakh tons?

**Ravi Jhunjunwala:** Yes.

**Vishal Chandak:** That excludes the nipple capacity?

**Ravi Jhunjunwala:** Without nipples, the electrode is of no use.

**Vishal Chandak:** So, the electrode capacity would be 90,000 tons?

**Ravi Jhunjunwala:** No, saleable product will be 100,000 tons. Today, when we say, we can produce 80,000 tons, it's a combination of electrode and nipple. That 80% becomes 100%.

**Moderator:** Thank you. We take the last question for today's concall from the line of Anubhav Sahu from MC Research. Please go ahead.



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**Anubhav Sahu:** I have a couple of questions. One is, you mentioned that imports from China for graphite electrodes have gone down by say 25% last few years. Could you comment upon what could be the possible reason for that, because I had this impression that they do have a surplus, non-UHP grade electrode. So, I thought the dumping will actually increase in this grade, but this is not the case?

**Manish Gulati:** They are finding demand for their HP grade within China. So, to that extent, they are exporting lesser. And even within China, the prices of HP grade electrodes have almost doubled in the last one year, if you look at that the lowest level, I'm just talking purely about Chinese inside China, so they had fallen to as low as \$1600 and now they are offering in the market as per public news around \$3,000, \$3,100. So, in a year span, the lowest was about in October of last year that was the lowest point that they were selling at. And now they have raised that level to 3,000 level, which means that they're finding enough demand in their own market.

**Anubhav Sahu:** Because earlier, the narrative was that because they lag behind their target for electric furnace. So, that's why the electrode capacity was available in advance. That's why there was a fear that there would be higher dumping in India or other markets?

**Manish Gulati:** You remember very accurately, this is exactly what happened that they were supposed to be reaching 42% portion in the year 2020. And they are at 15%. So, when their progression of year was slower than anticipated, but their electrode capacities came in much faster because those ones were already there. They quickly put up some additional furnaces here and there. And that's the basic game before that. Now that the EF is catching up, we can see that they are absorbing more of their electrodes within China.

**Anubhav Sahu:** You mentioned about the Greenfield facility. There is no new announcement world over for graphite electrode. But is there any other Brownfield expansion being talked about which you came to know?

**Manish Gulati:** No, we haven't heard of any such announcement.

**Anubhav Sahu:** So, right now, we are the only one which are going ahead with that kind of issue?

**Manish Gulati:** Yes, yes. And as I said earlier, will be commissioning this at the latest by either the fourth quarter of next year or the first quarter of '23.

**Moderator:** Thank you. I would now like to hand the conference over to Mr. Jhunjunwala, for closing comments. Over to you, sir.

**Ravi Jhunjunwala:** Thank you, friends. I mean, we had a long and very stimulating discussion and I thank you for taking so much of interest. Some of your questions were very, very pointed. I hope we are able



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to answer to your satisfaction. And I look forward to meeting you and talking to you in three months' time. Thank you.

**Moderator:**

Thank you, ladies and gentlemen, on behalf of HEG limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.