



LNJ Bhilwara Group Company



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HEG/SECTT/2025

18<sup>th</sup> February, 2025

<b>BSE Limited</b> P J Towers Dalal Street MUMBAI - 400 001. <b>Scrip Code : 509631</b>	<b>National Stock Exchange of India Limited</b> Exchange Plaza, 5th Floor Plot No.C/1, G Block, Bandra - Kurla Complex Bandra (E), MUMBAI - 400 051. <b>Scrip Code : HEG</b>
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**Sub: Transcript of Earnings Conference Call on Q3 FY25 of HEG Limited**

Dear Sir/Madam,

Please refer to our Earnings Conference Call scheduled on 14<sup>th</sup> February, 2025 intimated vide our letter dated 30<sup>th</sup> January, 2025. Please find enclosed the transcript of the said Earnings Conference Call.

The said transcript is also available under the Investors Section of the website of the Company i.e [www.hegltd.com](http://www.hegltd.com).

This is for your kind information and records.

Thanking You,

Yours faithfully,  
For **HEG Limited**

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“HEG Limited  
Q3 FY '25 Results Conference Call”

February 14, 2025



**MANAGEMENT:** **MR. RAVI JHUNJHUNWALA – CHAIRMAN, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – HEG LIMITED**  
**MR. RIJU JHUNJHUNWALA – VICE CHAIRMAN – HEG LIMITED**  
**MR. MANISH GULATI – EXECUTIVE DIRECTOR – HEG LIMITED**  
**MR. OM PRAKASH AJMERA – GROUP CHIEF FINANCIAL OFFICER – HEG LIMITED**  
**MR. PUNEET ANAND – CHIEF STRATEGY OFFICER – HEG LIMITED**  
**MR. RAVI TRIPATHI – CHIEF FINANCIAL OFFICER – HEG LIMITED**

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



**Moderator:**

Ladies and gentlemen, welcome to HEG Limited's Q3 FY '25 Results Conference Call, organized by SKP Securities Limited. As a reminder, all participant lines will be in the listen-only mode and you will be able to ask questions after the management's opening remarks. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Navin Agrawal, Head, Institutional Equities at SKP Securities Limited. Thank you, and over to you, sir.

**Navin Agrawal:**

Good afternoon, ladies and gentlemen. I'm pleased to welcome you on behalf of HEG Limited and SKP Securities 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; and Mr. Riju Jhunjhunwala, Vice Chairman; along with their colleagues, Mr. Manish Gulati, Executive Director; Mr. Om Prakash Ajmera, Group CFO; Mr. Ravi Tripathi, CFO; and Mr. Puneet Anand, CSO. We'll have the opening remarks from Mr. Jhunjhunwala, followed by a Q&A session.

Thank you, and over to you, Ravi ji.

**Ravi Jhunjhunwala:**

Thanks. Friends, good afternoon, and welcome to our financial results conference call for the third quarter 2024-'25. Global crude steel production for the full calendar year 2024 totalled about 1,883 million tons, making a 0.8% decline from 2023. However, excluding China, the world production reached 878 million tons, showing a very insignificant small growth of 0.2% as per the recent data published by the World Steel Association.

Steel production across major regions saw some mixed results. While U.S., Japan, Korea and Russia dropped between 2.5% to 7%, Mexico declined by 16.5%. On the other hand, India continued its growth trajectory with production rising by 6.3% to close to 150 million tons, supported by robust infrastructure and a strong automotive sector. Germany and Turkey posted a positive gain of 5.2% and 9.4%.

Meanwhile, China, who by far is the world's single largest steel producer, saw a decline of 1.7%, producing 1.005 billion tons in 2024. However, Chinese steel exports surged in 2024 due to a slowdown in domestic demand there, reaching 111 million tons, which is the highest in the past 8 years, which obviously results into a reduction of steel production in all other parts of the world, except China, which has a direct bearing on the graphite electrode demand in the markets we serve.

Having stabilized our plant operations post expansion to 100,000 tons, we were still able to operate our plant at about 80% capacity utilization with a base level of 100,000 tons, which was 81% last year, '23-'24, for the first 3 quarters at capacity of 80,000 tons. So practically, what I'm saying is our capacity utilization remains 80% at 100,000 tons versus 80% at 80,000 tons, which used to be 1 year ago. From all available -- public data available, we can safely say that this is by far the highest capacity utilization amongst all the graphite electrode companies in the Western world.



Electrode pricing remains under pressure due to subdued demand, while needle coke prices have been stable for the past 2 to 3 quarters, which obviously results into narrowing of profit spread. However, we believe that we remain the lowest-cost producer in the world or a little bit better even after expansion.

Despite near-term challenges, we remain highly optimistic about our industry's medium to long-term outlook. The decarbonization shift is irreversible, and we have been tracking projects all over the world with a total close to 100 mmt of steel, which are coming up with up new greenfield electric arc furnaces worldwide.

While margins may remain under pressure in coming quarters, in our view, we should start seeing a demand recovery in the second half of current year with some new capacities of electric arc furnaces coming into operation in different geographies of the world. And as you know, we have been exporting about 2/3 of our production to more than 30 countries for a long time. And we believe that we are fairly well positioned to capitalize on this increased demand.

As you may have seen, some of our peer group companies in the Western world have recently announced a price increase for the new orders in the region of 15% to 20%. And we do hope prices will start improving gradually as the current price levels are not sustainable for some of the high-cost producers.

Our demerger scheme is in the process. It got delayed by about 2 months due to our share split, which was also important to do, and the papers have now been re-filed with SEBI. We hope to get all the required approvals by the end of this year. Friends, with strong technological capabilities, operational efficiencies and market reach, we are confident in navigating industry shifts and creating long-term value for our shareholders.

With this, I'll now pass on the floor to our CFO, Ravi Tripathi, who will take us through the financial figures. Following that, our Executive Director, Manish; Vice Chairman Riju; and our Chief Strategy Officer, Puneet; along with me, will be delighted to address any queries that you may have. Over to Ravi.

**Ravi Tripathi:**

Thank you, sir. Good afternoon, friends. I will now briefly take you through the company's operating and financial performance for the quarter ended 31st December 2024. For the quarter ended 31st December 2024, HEG recorded revenue from operations of INR477 crores, as against INR562 crores in the corresponding quarter of the previous financial year. During the quarter ended 31st December 2024, the company delivered EBITDA of INR194 crores, as against INR110 crores in the corresponding quarter of the previous year.

The company, on a stand-alone basis, recorded a net profit after tax of INR98 crores in Q3 FY '25, as against similar amount of INR37 crores in corresponding quarter of previous year. And on consolidated basis, the net profit after tax is INR83 crores in Q3 FY '25 as against INR44 crores in the corresponding quarter of the previous financial year. The company is long-term debt-free and had a treasury size of nearly INR1,000 crores as on 31st December 2024.



Now, to take more questions from the participants, a detailed presentation has been uploaded on the company's website and on the stock exchange. Now, we would like to address any questions or queries you have in your mind. Thank you. Over to Navin.

**Moderator:** Thank you very much sir. We have the first question from the line of Praful Kumar from Dymon Asia. Please go ahead.

**Praful Kumar:** Okay. I have just broadly 3 questions. One, if I listen to the con calls of our global competitors, they are all indicating a 15-odd-percent price hike, given the conditions they are prevailing and weakening balance sheets. In that context and given the fact that recently, U.S. major steel producers have given a reasonably confident outlook for the year, do you think you will be taking the commensurate price hikes, or you will be still maintaining -- how it works in terms of -- if they increase prices, are you competitive enough to increase them?

**Ravi Jhunjhunwala:** You want to ask the 2 other questions so that we can answer at one go?

**Praful Kumar:** Yes. Sir, second question is your demerger process, the anode business. How should we understand in terms of what value it can create for minorities over a medium term? So, what is the broad sense and how this will be valued over time in terms of, say, opportunity size, market share? How do you think about the business? Where we should peg the valuations? Maybe INR100 million, INR500 million ballpark?

And final question is in terms of the reciprocal duties that have been talked about. How competitive we'll be and how it works and what it means for the business? These are the 3 questions, sir.

**Ravi Jhunjhunwala:** So, what was the last one? We missed that.

**Praful Kumar:** The duties that have been talked about from the U.S., the reciprocal duties, what it means for our industry and how -- yes.

**Ravi Jhunjhunwala:** Okay. Now, about the price increase, so obviously, if you -- I'm sure all of you are comparing our results versus everybody else's. So you will clearly see a difference, whereas we are still making 15%, 17% EBITDA even in these markets. It's not the same situation with some of the other competitors that we have. So, taking a lead from one, the second guy has also increased. The third guy has also announced a price increase. And let's see. I can't make any more comment than that. The time will tell, in the next couple of quarters, whether it goes through or it doesn't go through.

**Praful Kumar:** No, but, sir, the question is, if their price hike goes through, we'll be obviously comparable. So understanding that each steel producer has 2, 3 vendors...

**Ravi Jhunjhunwala:** Everybody's price is more or less similar, give and take, \$10, \$20 here and there. So, obviously, one price increase goes up, everybody will follow. But I'm not sure -- I mean, by our wish that we will increase the price, if it was that simple, then everybody would have done that long back. It's for the market to accept or not to accept. So, that's the first one.



The second one, our Chief Strategy Officer, Puneet, is on the call. He will explain about the demerger process. About the duties, I'm not sure. Of course, we have heard the results of Mr. Modi's visit to U.S. this morning. They have not announced any duties -- reciprocal duties, as they call. As and when they do, we'll have to bear that 7.5%.

But given our competitiveness and given our costs, till the time we -- as a country, so long as we are not able to -- I mean, basically, what I'm trying to say is, if this duty does come, whenever it comes on a reciprocal basis, so except paying that duty and still selling the electrodes in the U.S. market, there's no other option.

But since America happens to be amongst the single-largest consumer of electrodes, so to the extent possible, we would not like to lose our market share. And we'll absorb that 7.5%. As I said, we still have a reasonable margin. If I remember correctly, our EBITDA margin last quarter was also about 16%, 17%. So, to that extent, whatever exports we do to U.S., the EBITDA will come down to 10%. That's all.

**Puneet Anand:** On the demerger part -- can you hear me?

**Praful Kumar:** Yes.

**Ravi Jhunjhunwala:** Yes, Puneet, we can hear you.

**Puneet Anand:** So, on the demerger part, like Ravi told about that since we have done a split and the process got delayed, we...

**Ravi Jhunjhunwala:** Split meaning the share split. From INR10, we went down to INR2.

**Puneet Anand:** Correct. So we envisage that the entire process and the listing of the new entity will be done by this -- end of the year.

On the question about the value for the shareholders and all, so the prime objective for doing this demerger was to actually unlock the value of the shareholders, reason being today, HEG graphite business has a multiple -- and the green business, which we do, which is the anode business, which is the -- other green businesses which we are into -- doing into this new entity, has a different, entirely, multiple.

And today also, if you see the market cap of HEG, that doesn't give the fairness value of the value which it holds. So, to answer you, if you have seen the PwC and ISEC reports on the fair valuation of the asset, which will be the new entity, that is close to INR3,200 crores. That is the fair value of that asset. So, once this process has been done entirely, it will create immense value for the shareholders.

**Ravi Jhunjhunwala:** And the shareholder, it will be exactly similar, 1:1.

**Puneet Anand:** So, yes, you're right. When you are doing this scheme of arrangement, the -- it is 1:1. But since promoters are also contributing their 51% stake of the Bhilwara Energy into this company, so they will be given additional share of this company because they are putting the value to it. But



this is not having any detrimental value on the shareholders because it will enhance the value and create a linear structure for the future [inaudible 0:16:35].

**Moderator:** The next question is from the line of Saumil Shah from Paras Investments.

**Saumil Shah:** Looking at the current pricing environment and our capacity utilization, where do we see our company in FY '26? Can you kindly provide us a guidance on revenue and EBITDA for FY '26?

**Ravi Jhunjhunwala:** See, it will all depend upon what happens in the next 12 months. As I said, we have been tracking practically every new electric arc furnace, which is under construction in Europe, in America, in other parts of the world. And we are pretty sure -- we can't talk about the specific numbers, but we are pretty sure that a lot of these are going to be in operation this year.

And so, with this new demand coming up and the old demand is not going away in any case, so all the new capacities which are coming in are going to add to electrode demand. So, it's too early to predict what's going to happen in '26. As I probably have told last time also, any new greenfield plant, which is coming for electric arc furnace, the CapEx is more or less \$1 billion for 1 million tons of new plant.

So, it's a fairly heavy expansion in current scheme of things. So there is always a possibility of preponing or postponing of 1 or 2 quarters for whatever reasons that somebody has. So reacting to something which is likely to happen, let's say, 9 months, 12 months down the road is very dangerous. And we, obviously, cannot put a number to it. But all I can tell you is that at least 20 million to 30 million tons of new electric arc furnaces are more or less coming by end of this year, or let's say, between now and the end of this year.

**Saumil Shah:** Okay. And for the current ongoing quarter, have we increased our prices, as one of our larger competitor, what you said, has increased their prices? So, even have we increased our prices?

**Ravi Jhunjhunwala:** No, nobody has increased the prices. See, I could go on and send 100 letters to 100 customers asking for 20%, but that doesn't serve much of the purpose. Everybody wants to increase, but whether it is going to be acceptable or not, that is the main question. So everybody is trying to do whatever he can in order to push the price.

But it's too early to say. And typically, in the American, European system, they talk about 2 quarters or 3 quarters of pricing. So whatever they are predicting or contemplating is probably in the second half. The first 2 quarters probably is more or less 70%, 80% already sold at the old prices.

**Saumil Shah:** So, the current quarter prices are similar to what it were in the Q3, previous quarter?

**Ravi Jhunjhunwala:** Yes.

**Saumil Shah:** So we can expect the similar margins for the current quarter?

**Ravi Jhunjhunwala:** Yes. See, you have to also appreciate in this particular product, from the time you buy your raw material and by the time you sell your electrodes, it's anywhere between 3 to 6 months. The raw material is imported. So, by the time you buy, you get it shipped and you get it, it's already 2,



2.5 months. And the process time to produce electrode is anywhere between 2 to 3 months to 5 months, depending on the size, quality and everything else.

So, we can more or less -- we more or less know our -- if not full 2 quarters, we know at any point of time what does the next quarter or 1.5 quarters look like because everything is frozen. The needle coke is purchased, the power price is known, selling price is known. So, you know the cost price, you know the selling price. So, whatever we are now talking about is already going to the third quarter of this calendar year.

**Saumil Shah:** Okay. So basically, what you mean to say is for next 1, 2 quarters, our EBITDA will remain in the similar range, around 16%, 17%?

**Ravi Jhunjhunwala:** Yes.

**Saumil Shah:** Okay. And sir, recently, there was some news on Chinese -- China's quota on graphite exports used in EV batteries. And I think our stock price has zoomed up after this news. So, we are currently not doing this production, right, for graphite used in EVs?

**Manish Gulati:** Yes, that is -- that was for natural graphite and all the graphite powder and products used for the EV anode powder, that was the export restriction. It was not on graphite electrodes.

**Saumil Shah:** Correct. So currently, we are not into that, right?

**Manish Gulati:** We will come into that later when our plant is in -- the anode plant is in production.

**Saumil Shah:** Okay. And that will take at least what -- how many more quarters?

**Manish Gulati:** 18 months maybe.

**Saumil Shah:** Okay. And sir, what is the export percentage to U.S., sir? Just now -- you just said that maybe U.S. can have an import duty. So what is the percentage of our sales to exports?

**Manish Gulati:** [inaudible 0:23:03] percentage to U.S.

**Ravi Jhunjhunwala:** I would not like to talk about the exact percentages, but it is amongst the largest. U.S. is one of our larger geographies to where we sell. And it is pretty natural because they are the single largest consumer of electrodes in the world as a country. Just to clarify, as you know, electrodes are used where the steel production happens to -- happens through electric arc furnace.

So, while the rest of the world produces about 47%, 48% steel through electric arc furnace, U.S. produces more than 75%. So, obviously -- and U.S. is the third largest producer of steel. So, that makes U.S. amongst the largest consumers of electrodes in terms of capacity and size.

**Moderator:** The next question is from the line of Suraj Khaitan from SKP Securities.

**Suraj Khaitan:** Sir, can you please provide an update on the current status of graphite anode project?





- Ravi Jhunjunwala:** I think Puneet just talked about it. It's delayed by about 2, 3 months because the split that we did -- split of HEG shares, and the Anode project is practically -- I mean, the construction started more than 2, 3 quarters back. We are targeting end of next year -- end of '26.
- Moderator:** The next question is from the line of Rajesh Majumdar from B&K Securities.
- Rajesh Majumdar:** So, sir, my first question was in the current graphite electrode market of, say, 7.5 lakh, 8 lakh tons, what is the capacity utilization?
- Ravi Jhunjunwala:** You're talking of capacity utilization of ours or others or...
- Rajesh Majumdar:** No, of the overall 7.5 lakh, 8 lakh ton market, but ex China.
- Ravi Jhunjunwala:** No, first of all, ex China is nowhere close to 700,000 tons. Ex China, after some of the capacities have been closed down in the last 2 years in the Western world, that capacity is more or less in the region of 550,000 tons, maximum 600,000 tons.
- So it was -- it is not in that region that you're talking about. And again, I'm just giving you public data, which is all available on the website of different companies. I think the 2 Western companies like GrafTech and Resonac, they have very recently come out with their results for the last quarter, and they are both more or less in the region of 50%, 52% capacity utilization.
- Manish Gulati:** You see, among the 3 major groups, Rajesh ji, one is Resonac, one is GrafTech, and a player which is smaller than us is Tokai. So, like you, we also just read the papers and whatever they provide in public. So let's say, one of them said 55%, and then there's -- somewhere you can reduce do 60%.
- So, if you just add ours and theirs and put it all together in one basket -- so your question which you asked was what is the overall industry capacity utilization ex China -- probably you will end up at a number around -- anywhere between 60%, 65% or in that range, 60% to 65%. When you add all of us together and divide by the total capacities we have, probably it would be 60% -- close to 65%.
- Rajesh Majumdar:** So, on the current operational capacity of 5.5 lakh-odd tons which sir mentioned, the utilization is 65%, is that correct?
- Manish Gulati:** Yes, 65%, close to, if you add up everybody.
- Rajesh Majumdar:** That is, about 3.5 lakh tons is the current production in the market. Is that right?
- Manish Gulati:** Ex China, yes.
- Rajesh Majumdar:** Ex China, yes.
- Manish Gulati:** You can take the number of 600,000 tons after all the recent closures announced. And on that 600,000 tons, you can talk about 65% because this is a bad year actually.



**Rajesh Majumdar:**

Okay. So I have 2 questions. So, we are now operating at, say, 380 kt kind of production figure. So, by the analysis that you provided so nicely, we are assuming that the overall GE demand will go up by over 2 lakh tons over the next 5 years. So my -- I have 2 questions in 2 parts. One is that what is to prevent from the -- old capacity from coming in and satisfying this demand?

Secondly, you have mentioned in your notes that China's shift to EAF has been stalled, resulting in an oversupply of Chinese electrodes and their supply in the market. So earlier, we thought that the quantum of Chinese electrodes, which could come out, is limited in terms of the technical parameters of UHP electrodes. So, given these 2 factors that industry can go back to the original capacity of 7.5 lakh tons and Chinese electrodes can also come, where is the case for a firmer pricing scenario? If you could clarify these doubts?

**Ravi Jhunjhunwala:**

I'll clarify this. It's pretty simple. We still believe that China is still producing not more than 13%, 14%, 15% of its total steel through electric arc furnace, whereas the rest of the world is now in the region of 47%, 48%, minus China. So, that's number one. Secondly, China -- China's electrodes and the Chinese electrodes technology and the quality is still far behind.

And they are very -- with great difficulties, they are able to make some of their electrodes work in some of the European and American and Indian plants. It's not just Europe. It's not just America. It's even India. They are exporting a little bit in India also. So, whatever we have been saying for a long time, we don't really consider them as a threat, at least in the near future.

The ultra-high power, which is what we have been talking about -- majority of our production or Graphite India's production or Americans or the Japanese companies' production is majorly for the ultra-high power, where China is not able to provide the same quality.

**Rajesh Majumdar:**

Okay. No, because you mentioned -- this is a point in your note that oversupply of Chinese electrodes have contributed to continued price decline. So, I was just wondering why this note has come because I also had the same impression that they can't compete in the high-quality electrodes. But since you put it as a note in your presentation, I was just wondering as to how much of a threat is it.

**Manish Gulati:**

Rajesh, are you referring to our investor presentation or somebody else's?

**Rajesh Majumdar:**

Yes, your investor presentation, industry outlook -- you mentioned there, in point #5, the China's shift to electric arc steel production has stalled, resulting in an oversupply of Chinese electrodes and continued price decline.

**Manish Gulati:**

Yes. So, let me explain this point in perspective. You see, it's -- see, China earlier said that they would reach 20% of their production by, let's say, 2020 and then 2025. So, as we see the production, their shift to electric arc furnace is not happening as per their own schedule. So, when we say stalled, they stalled as compared to their own projections of reaching 20%.

So, it's still there about I think not even 13%, 14%. It's around 11%, 12%. Had that electric arc furnace shift happened in China, the oversupply of Chinese electrodes in export markets would not have happened. So, they are still lagging behind their own EAF production targets. So, every time that target shifts, that is what is causing an oversupply of Chinese electrodes, even if they



are not of the UHP variety because a large part is the HP grade variety. So that's what that point #4 means.

**Rajesh Majumdar:** Got it. So this Chinese electrodes are coming only into India, or even in U.S.? U.S., they can't come because of the import duty. But in other markets like Middle East and Japan also, the Chinese electrodes are coming now?

**Manish Gulati:** See, Chinese electrodes are going all over the world, Rajesh ji. It's about that quality which they are supplying. I think there must be -- I think some custom data, I was having a look a few days back, it's about 400,000 tons. But out of that 400,000 tons of electrodes, they are not UHP variety, and they go to all kinds of countries, a big list of countries, everywhere. There's a big dumping duty in U.S. on Chinese electrodes. That's where they are limited. But other than that, they go to every country, including India.

**Rajesh Majumdar:** Okay. So I just wanted to know whether that's a concern for our long-term future, that's all.

**Manish Gulati:** No. They've always been there. You see, not only now, for 5, 6, 7 years, they have been exporting a lot of these tonnages. And they mostly cater to the ladle furnace market. Lately, they are also targeting some furnaces where UHP grade works. But that's still behind. I'm not known of any big customer group giving them 20%, 30% of the business for the last few years because in this product, consistency and reliability is most important rather than price.

**Ravi Jhunjhunwala:** All these new 100 million or 70 million, 80 million that whatever we are talking about in terms of new electric arc furnaces being built all over the world, they are all very large furnaces with very large amount of transformer and power and everything. Their quality requirement, the size of electrodes is very, very different than what China can produce.

So, China has been producing a lot of electrodes. They're consuming a lot of electrodes. But their size of furnace, the size of rectifier, the power that they feed into those furnaces is nowhere comparable to these plants which are coming up now.

And one point here is also important for you to understand. Electrode only means 1.5% to 2% of the cost of production of a steel company, whereas 1 bad electrode, 1 breakage of a bad electrode means 1 or 2 hours gone. So, the cost of loss of that production of 2 hours is far too high compared to the cost of 1.5%, 2% in the price difference and the consumption difference of electrodes.

**Moderator:** The next question is from the line of Pranay Khandelwal from Tirthan Capital.

**Pranay Khandelwal:** Just wanted to ask, the management made a comment that the U.S. and Europe, they sell the capacity 1 or 2 quarters ahead. So, just wanted to understand if that is something that applies to us also. Like do we also follow the same practice?

**Ravi Jhunjhunwala:** No. You see, if we are exporting about 2/3 of our production, it takes about -- as I said, between 2 to 4 to 5 months, it takes to produce all those electrodes. And if we are -- so unless we have order book for the next 2 quarters at least, you can't even start production of those electrodes.



- Pranay Khandelwal:** So, we work on an on-order basis?
- Ravi Jhunjunwala:** So, it is the same pattern. Today, if you are operating at 80%, 85% capacity, let's say, in this quarter, January-March, we can supply another 5%, 7% for an ad hoc supplier -- ad hoc demand. But 80%, 85% is already sold. And similarly, if it is not 80%, 85% for next quarter, April-June, it will be at least 50%. So, you cannot plan unless you know what size and what quality you have to produce and sell in April, March -- March, April, May, you can't plan your production also.
- Moderator:** The next question is from the line of Saket Kapoor from Kapoor Company.
- Saket Kapoor:** Sir, firstly, I missed your number on the global -- yes, am I audible, sir?
- Ravi Jhunjunwala:** Yes. Global -- what was your word, global what?
- Saket Kapoor:** Yes, sir. Global capacity addition, firstly, in terms of the graphite electrodes that have taken place for 2024, and what are the capacity addition in the anvil going ahead, whether there are any?
- Ravi Jhunjunwala:** No. See, I can give you more or less accurate data. If you -- if we go back to, let's say, 2010, the total capacity of electrode minus the 2 Indian plants was 740,000 tons. That 740,000 tons is today close to 500,000 tons. So, that -- this number is 90%, 95% accurate because there have been public announcements that this plant is closed, that plant is closed of this capacity and that capacity.
- So, 10 years ago, 14 years ago, 740,000 tons meant about 21 plants. Again, I'm talking minus Graphite India, minus HEG. So, that 740,000 tons and 21 plants in 2010, currently it stands at 500,000 tons and 13 plants. So, 8 plants have fully closed down and 240,000 tons of capacity has gone out of business. And this is, as I said, without HEG and Graphite India.
- And now, if you come to India, India was 120,000 tons in 2010. So, 740,000 tons outside of India, 120,000 tons in India. I'm going back to 2010. And that 120,000 tons was equally divided between HEG and Graphite India, 60,000 tons each. Currently, today, as we speak, we are 100,000 tons and Graphite India is 80,000 tons.
- Graphite India, as you know, had a plant in Germany, which they closed down 3, 4 years ago. They had a plant in Bangalore, which they had closed about 7, 8 years ago. So, Graphite India today has 2 plants with a capacity of 80,000 tons in Durgapur and Nashik. So, if this gives you a picture -- if this gives you a satisfactory answer to what you are looking for, so these are the statistics.
- Saket Kapoor:** Yes, sir. And how have the steel production shaped up from the electric arc furnace route, if we take that statistics in correlation to how the mothballing of capacity for graphite has been?
- Ravi Jhunjunwala:** See, I'll tell you the global figure, again, minus China because in all these discussions, we are excluding China because as soon as you mix China in the rest of the world, the figures differ, they change drastically because China produces only 10%, 11% of its steel through electric arc



furnace and China produces 55% of the world's steel, whereas the balance 45% steel, which is produced by everybody, excluding China, electric arc furnace accounted for about 40%. So, that 40% in the last 2, 3 years has come close to 50%. So, 40% going to 50% in the last 5, 7 years basically means 25% jump.

Now, in India, for some reason, which we cannot understand, the electric arc furnaces are not being built, whereas close to 100 million tons of new greenfield electric arc furnaces are coming in because -- simply because of the carbon emission. Carbon emission in the electric arc furnace is between 4x to 5x higher than the same steel produced through the electric arc furnace.

So, in that backdrop, 100 million tons of new electric arc furnaces are coming in the world, which does not include India and which does not include China. And the CapEx for these 100 million tons is roughly \$100 billion. So, for every 1 million tons of new greenfield electric arc furnace, the cost is about \$1 billion. So, the steel industry outside of India and outside of China is investing about \$100 billion to build about 100 million tons of new electric arc furnace.

I don't know if I made sense, if this is what you were looking for.

**Saket Kapoor:** Yes, sir. And 2% of that will go towards -- the expenditure towards the graphite consumption?

**Ravi Jhunjhunwala:** No, you are confusing. Now, we are talking about the CapEx.

**Saket Kapoor:** Capex, okay, right.

**Ravi Jhunjhunwala:** The capex to build 100 million tons is about \$100 billion. And when you are talking of 2%, we are talking of the operating cost. That means what I'm saying is, electrode constitutes about 2% of the operating cost to produce 1 ton of steel. So, it's a very insignificant cost for the steel producer. But as I explained in answer to one more question earlier, but that 2% can stop your furnace for 2, 3 hours. If 1 electrode breaks, it takes you 2 -- you waste 2 hours of production just for a bad quality electrode, which is -- which accounts for 2% of your cost.

So, the cost of that 2 hours is very, very high as compared to saving in buying an electrode, which is, let's say, 5%, 3%, 4% cheaper than the best ones. You imagine a 200-ton furnace stopping for 2 hours. So, he loses 400 tons of steel production because of the bad electrode, which only means 1.5% to 2% of his operating cost. That is where the quality and the technology comes in.

**Saket Kapoor:** Yes, sir. Sir, can you comment on the raw material price basket, especially for the needle coke and the pitch tar part? And also, when we look at our other income component, that has gone up for this quarter. So, what factors led to this other income -- increase in other income?

**Manish Gulati:** First question, other income has gone up.

**Ravi Jhunjhunwala:** No, first question was what -- I mean, the other question was MTM.

**Saket Kapoor:** First question was regarding the RM prices.



- Ravi Jhunjhunwala:** The first question was needle coke -- no, first question was needle coke prices. So, as I said, the electrode prices are more or less frozen for at least 1 or 2 quarters because it takes that long to produce electrodes. So, in connoisseur with that, the needle coke prices are also frozen for 1 to 2 quarters because unless we know the cost of needle coke at least for the next 2 quarters, we can't buy it. We can't sell our electrodes. So, this more or less goes hand in hand.
- Saket Kapoor:** Correct, sir. And the price end also, sir, going ahead with the capacity addition for needle coke also. I think that is mainly from -- China only is the major producer. So, what would be the outlook there in terms of...
- Ravi Jhunjhunwala:** No, major producer of what was China?
- Saket Kapoor:** Needle coke, I think so, is majorly produced...
- Ravi Jhunjhunwala:** No, we don't buy a single ton of needle coke from China.
- Saket Kapoor:** Okay, sir. How about the capacity...
- Ravi Jhunjhunwala:** China doesn't produce needle coke. We only produce -- there are basically only 2 or 3 producers of needle coke in the world. It's exactly the same story in needle coke as electrodes. There are a very handful of companies producing needle coke and a handful of companies producing electrodes. It's a matter of technology basically. So there's an American company and there are 2, 3 small Japanese companies for needle coke.
- Moderator:** Ladies and gentlemen, we will now take the last 2 questions for the afternoon. The first is from the line of Deep Mehta from Bank of India Mutual Fund.
- Deep Mehta:** Just taking for the last participant's question, like you said, the roughly 2.4 lakh ton of electrode capacity has been gone since last few years. How difficult or easy is it for those guys to bring back those capacities? And what can be the lead time between someone wanting to start the capacity and those capacities actually coming on stream?
- Ravi Jhunjhunwala:** See, just to give you a quick context, our plant, the HEG plant near Bhopal, that is really the last new greenfield plant built in the world. So, that gives you an idea about the complexity of the technology and how many companies there are who can give you the technology. And it used to be 7, 8 at that time when we came in 1976.
- Today, it is down to 3 or 4. If you really talk about the graphite world, there are basically 4 large companies, GrafTech and Resonac -- GrafTech in America, Resonac in Japan, and the 2 of us in India. There's a small company in Japan called Tokai, but they have a capacity of 72,000 tons between 3 plants, 3 locations.
- So, in any case, with an average of 24,000 tons, 25,000 tons plants at 3 locations and all those 3 locations being in Japan and Europe, their costs are way higher than anybody else. So, this is the context in which you asked that question. So, I don't know if this helps you.
- Deep Mehta:** That is somewhat helpful. But, let's say, GrafTech or some big company, they have shut down a capacity...



**Ravi Jhunjunwala:**

No, they can always restart. Of course, they can restart. But again, these plants are all very, very old. Even if you take our plant, we started this plant in '76 with a capacity of 10,000 tons. But we have kept expanding from 10,000 tons, and currently, we are at 100,000 tons.

So, even in terms of equipment and everything, every 5 years or every 4 years when we have expanded by 15,000 tons, 20,000 tons, 30,000 tons, we have had this opportunity to buy the best equipment of that day. All the equipment that we buy, there is obviously some improvement in cost, some improvement in technology, some equipment in -- some improvement in efficiency.

So, because we have kept expanding over the last [inaudible 0:50:26] we have had this advantage over others that every time we have expanded, we have bought the best equipment of that day. So, theoretically, what you are saying is perfect that it is always possible to restart the plant. Let's say -- I mean, I'm just talking out of my mind. If the prices go to 10,000 tons, everything will start. Why should they not?

Even if your cost is \$500 higher or \$700 higher, everything will restart. And they will obviously restart. If there's a demand for electrode and the prices go to 10,000 tons, it doesn't matter whether you make \$500 more or less. So, theoretically, yes, it is possible. But given the situation in the world today, especially in terms of labor and regulations and things like that, it is not -- I mean, today, it's not easy to restart a plant which was closed 10 years ago, let's say, in Japan or Germany or Spain.

But yes, theoretically, you are perfect -- perfectly all right. Nothing stops them to restart the plant. But a couple of plants in the last 5, 7 years, which were closed down, have actually been razed to the ground. So, there are both the scenarios. Some plants have been razed to the ground because they were very close to a large-ish kind of a city in Germany or Japan or Spain. And so, it was not worthwhile waiting for restarting the plant rather than selling the land to a real estate developer.

**Moderator:**

The next question is from the line of [Zeb Porczyk 52:30] from Opoka TFI.

**Zeb Porczyk:**

Two, if I may. You just authorized an increase in the investment limit in foreign stocks by some 40%. And I understand that you will increase your stake in GrafTech even more and probably exceed 10% in the company. So, the question is, what is your long-term plan with such a huge stake in competitor? And why do you think it's better to buy those shares instead of buying back your own stock?

And the second question on price increases. You mentioned that your competitors increased prices or they try to increase prices, yes, Resonac 20%, Tokai 10%, GrafTech 15%. And you just mentioned that you are waiting for those to go through or not to go through. And the question is, why are you in a waiting mode and why you are not acting proactively and do the same as your competitors, meaning send those 100 letters to your 100 customers saying that you would like to increase prices?

**Ravi Jhunjunwala:**

Okay. Now, your first question -- first 2 questions are relating to our investments in GrafTech. See, from our calls in the last -- let's say, 4, 5 calls over the last 1.5 years, 2 years, we have always been saying that we see a big increase in the demand for electrodes. And there are not



too many players who are in this business. There has not been any new player in the field of graphite electrodes in the world. We were the last one 50 years ago.

So, in that backdrop, we have been expanding our plant because, as I said, we are amongst the lowest-cost producer of electrodes in the world. And, of course, the size of the plant makes a difference. From 10,000 tons, if we have grown to 100,000 tons, when you understand, what happens when you produce 100,000 tons on the fixed costs.

So, in that backdrop, about 6 months ago, we just saw that GrafTech's market cap -- and GrafTech is in a very special situation compared to all the other 4, 5 graphite producers. That's the only company who has -- who is backward integrated to the raw material, needle coke. So, they had a capacity of 200,000 tons of electrodes and 140,000 tons of needle coke.

So, if you have been following our business, let's say, for the last 5, 6, 7 years, you would have seen that 5, 7 years ago, when the electrode prices went up by -- absolutely went through the roof, let's say, so did the needle coke prices. So, GrafTech is in a very, very good situation, where they have 70% of their own raw material, and that raw material happens to be a very special kind of crude oil.

And as you know, in the Western world, you can buy your raw materials, especially oil, in future. You can buy all your raw material for 140,000 tons of needle coke for 3, 4, 5, 6 years at a frozen price. You can pay a premium or a discount, depending upon when you are doing it. So, you can actually freeze your raw material cost.

So, to answer your question very frankly and very clearly, so 3, 4, 5 months ago, their market cap -- with more capacity, more or less 2x capacity of electrodes, plus a 70% backward integration, that is what GrafTech is, which -- that privilege is not available to any of the other graphite companies of needle coke. And as you must have understood from our tone and tenor, we are looking at good days.

Nobody can time that. But we are talking about an increase in the electrode demand because of this new 80 million, 90 million, 100 million tons of new electric arc furnaces, which are likely to be in operation. Some of them are already in operation, and some of them are coming this year and another next 2, 3 years. So, in that backdrop, their market cap was practically half of ours, which didn't make sense, given the capacities, given the backward integration and given the next 2, 3 years' demand of electrodes.

So -- and we were sitting on a fairly substantial treasury, which was giving us 6%, 7% -- a rate of 6%, 7%, 8% return. So, we said, why not? If we are sitting on cash and making 7%, 8% returns, and if we believe in this business, and -- so, obviously, if we believe in this business and we believe in all whatever I just explained that their prices are likely to shoot up much more than ours. That's what actually prompted us to do it. So, that -- so I believe that explains our rationale about why we invested there.

And what else? Was there anything else that you asked?

**Manish Gulati:**

Why waiting for a price increase? Proactively announce.





**Ravi Jhunjhunwala:** So, is it okay? Have I answered you to your satisfaction, the first question?

**Zeb Porczyk:** Yes. Maybe the first -- one more sentence on the first part of the question. So, what is your long-term plan with such a stake because we are not talking about 1% in the company, but 10%-plus. So, is it just waiting for a price increase or you would like to make some kind of integration, if you can comment?

**Ravi Jhunjhunwala:** No, for the time being, we are not looking at any integration. As I said, if we are the cheapest-cost producer, why would we like to have any integration with a producer whose cost is much higher than ours? So, that is not even in our radar. It's purely on the assumption that we are in the right business.

We believe the electrode business is going to be better and better and better. And when that day comes, their prices -- their share prices will see a much larger jump than our own prices because of that needle coke that I just talked about. And we saw that 5 years ago. Their prices jumped much, much more than us because they made -- not only they made profits on electrodes, they made tons of profits on needle coke, which only they could have done.

So, that is the -- that's purely the reason that attracted us to invest in GrafTech. And we are happy about it. It doesn't matter whether it goes down or up. We are not -- we are not taking a short-term view on that.

**Zeb Porczyk:** Okay. And the second question on why you are not acting proactively on price increases, if you could comment on that?

**Ravi Jhunjhunwala:** No, I didn't say that. I didn't mean that. Even if I did say, I didn't mean it. See, announcing on paper and making that change on ground are 2 different things. See, purely by sending a letter, if I could get a price increase, I'll be very happy to do it this afternoon. But the -- and we are still half the size of the other 2 bigger players.

So, if they have taken the initiative, the market is aware about the intention, and the reason they have announced the price increase is obviously because they also believe more or less on whatever we just spoke about, that new electric arc furnaces are coming, the demand of electrodes is going to rise. So, in that backdrop, obviously, they have announced a price increase.

So -- and as I said in answering an earlier question, in this business, you are more or less already booked for the next -- at least 100% for the next quarter and at least 50%, 60% of the second quarter. So -- and we are also going by the assumption that if there is a price increase because the other 2 guys have already announced, we will see it in the market in any case. So, there's no need to irritate the customer by sending letters after letters that we are also increasing the price. Whatever will happen will apply to us in any case.

But I can assure you that we are not selling cheaper. Our quality, our service is that we don't need to sell cheaper than them, and we are not doing it.

**Moderator:** The next question is from the line of Shashank Kanodia from ICICI Securities.



- Shashank Kanodia:** Sir, if you can just quantify the MTM gains on your other income? I think these were largely pertaining to the shares that you hold of GrafTech, right?
- Ravi Jhunjunwala:** Yes, that was one of the reasons, right, major one.
- Shashank Kanodia:** So, can you quantify, sir, what was the other income on account of MTM gains?
- Ravi Jhunjunwala:** I think it was somewhere in the region of INR60 crores, INR70 crores.
- Shashank Kanodia:** Okay. And second, sir, on the anode plant, I think your last commentary was that you're still negotiating your deals with the state governments regarding some relief on the power tariffs or something of that sort, right? So -- and now you're mentioning that the construction of the plant has started. So, can you please help us understand where are we on that front? And have you finalized the location and the tariffs in the state government deals?
- Riju Jhunjunwala:** So, I can answer that. Riju this side. We are -- we've absolutely decided on the site. We've already procured the site. It's 105 acres in Dewas. And we are in the process of now finally doing the final drawings for the 20,000 tons plant, which we increased from 10,000 tons. And in the next few weeks, we'll be starting to open all the LCs, etcetera, for all the machine import that we have to do.
- With the state government, obviously, we have a whole list of demands that we want. And whatever we can get out of that, we will try to extract the most. But regardless of that, based on the current view that we have, we are still going ahead with that plant exactly as per plan.
- Shashank Kanodia:** Right. And, sir, initially, we were expecting a payback of roughly 7 years, given the fact there was a decline in lithium and battery prices. So, that mathematics still remain? Or does that improve into our favor or, call it, worse to us?
- Riju Jhunjunwala:** It would remain the same right now because the battery prices that now we have taken in our business plan and changed all our other assumptions accordingly. I think the battery prices, the way we are seeing globally now, they have more or less bottomed out. So, we won't be seeing a further decline over there.
- And again, China produces more than 7 lakh tons of this product, and we are talking about 20,000 tons. And there's a host of American companies, Indian companies and European companies who want to buy this material from places other than China. So, while, obviously, we are not going to get 20%, 30% kind of a delta compared to China, but definitely, a 10% to 15% added margin because of the product being made outside China is something that is a very -- I mean, reasonable assumption.
- Of course, if we get the other stock that we're asking from the government, if we get that, then of course, the payback definitely becomes shorter.
- Shashank Kanodia:** Great. And sir, we intend to spend something like INR1,700 crores, right? So, can you please share the time line as in what happens in FY '26, what's going to happen in FY '27?



**Riju Jhunjhunwala:** So, we've -- right now, we've spent around INR100 crores, and I think this plant will be fully operational by September 2026. That is the plan. And obviously, by that time, the demerger would have happened. So, it will be part of the new company, which is HEG Greentech, which would consider -- or which would be part of Bhilwara Energy, which will be one vertical; bottle-to-bottle manufacturing, which will be the other vertical.

Third vertical would be RePlus, which is our battery storage company. And the fourth would be this particular -- the TACC project. So, of course, as part of the demerger, the HEG shareholders will get one share for all these other projects as well.

**Shashank Kanodia:** Right. And the total capex spend remains same, right, INR1,700-odd crores?

**Riju Jhunjhunwala:** INR1,700 crores to INR1,750 crores, depending on your -- there's been a bit of an issue with the whole dollar appreciation, which we, of course, are trying to talk to all the Chinese partners that this has to be on their account because prices of -- capital expenditure should also go down and not go up only because of the dollar appreciation.

**Moderator:** Ladies and gentlemen, we now have the last question of the afternoon from the line of Saket Kapoor from Kapoor Company.

**Saket Kapoor:** Sir, firstly about this anode plant, which Riju sir was explaining. So, this will be entirely a different vertical and no correlation as such with the electrode part of the story? And the total capex to run the plant optimally would be how much, sir?

**Riju Jhunjhunwala:** So, I would not say that HEG and TACC will not have any correlation. Of course, it will be in a different company after the demerger. But a couple of the major factors like the raw material purchase, your graphitization process, these are factors that are common to HEG graphite and to the new anode plant, which definitely gives us a much bigger upper hand compared to our other competitors in this.

And yes, it will be in a different company, but we'll have a lot of synergies between the 2 companies as far as this is concerned. And the total capex would be, like you mentioned, between INR1,700 crores and INR1,800 crores.

**Saket Kapoor:** And Riju sir, what we observe -- I'm also an investor in your other group company, RSWM. We find you also there as the Managing Director, and here, the Joint Managing Director. I think so there is a split of responsibilities in both the 2 different aspects.

But just to -- just as a concluding remark, sir, we find that for HEG as a whole, not only for this quarter, for -- now being for many years, both Ravi sir and his team has been always not only answering to the question, but leading from forefront in explaining to us all the nitty-gritty, whereas when we look at your other group company, RSWM, there is a shift in the top role and all.

So, I would just like to take -- bring to your kind notice that, Riju sir, you should be taking up some more keen interest in listening to your investors. They are also addressing their queries and putting things in order. They are in order. You [inaudible 0:70:40].



- Riju Jhunjhunwala:** They had a large investor call yesterday in RSWM Where I was present...
- Saket Kapoor:** Yes. I was there, sir. I was there as part. So, I would like you to be there also, sir. Yes.
- Riju Jhunjhunwala:** [inaudible 0:70:53] But talking about the new industries, we are going into absolutely 4 different verticals, which is a bottle-to-bottle, which is your anode, which is your -- this thing, your battery storage. And in time, obviously, there will be -- this company will be completely professionally led. We need to have a CEO for this company. But as of now, we are just putting all the pieces of the puzzle together and managing it that way.
- As far as RSWM is concerned, I think we have answered most of your questions yesterday. It's just been a bad 18 months for the textile industry in general. And whatever internal changes we had to make, whatever efforts we need to make from our side, absolutely, nothing is going unnoticed or not being done.
- Saket Kapoor:** Yes. Sir, congratulations to all the good work being done in both the organizations, and we hope for the continuity of these calls and a lot of merit in the discussion, sir.
- Navin Agrawal:** Thank you very much. That was the last question in the queue. Before I hand over the call to Mr. Jhunjhunwala for the closing remarks, I'd like to invite Mr. Manish Gulati. Manish ji?
- Manish Gulati:** Yes Thank you, Navin ji. I wanted to make a clarification. See, while we were answering queries on industry capacity, industry utilization, there were some questions from Rajesh Majumdar of B&K. So, let me clarify very clearly. The nameplate capacity of all the graphite electrode industry ex China is 700,000 tons.
- And when we say -- when Rajesh ji asked what would be the typical industry-level utilization, while we can very clearly say ours, we only have to look at public statements made by others. Some of them make it clearly, some of which we can't make out. So, let's say, 65% to 70% would probably be the industry-wide capacity.
- This is the maximum estimate we can give. So 65% of 700,000 tons would mean 4.5 lakh tons of electrodes, and 70% would mean 500,000 -- 5 lakh tons of electrodes. So, I just wanted to clarify this very clearly. This is what we think our estimate of the industry utilization, where we are very accurate with our own, of course. That's all.
- Navin Agrawal:** Thank you, Manish ji. I'd now like to hand over the call to Mr. Jhunjhunwala for his closing remarks. Ravi ji?
- Ravi Jhunjhunwala:** Thank you, friends. It's been a pleasure talking to you. And this time, we had very, very probing questions. And I hope we have been able to satisfy you, and I look forward to having another discussion in 3 months' time with you. Thank you.
- Moderator:** Thank you. Thank you very much. On behalf of SKP Securities Limited, that concludes this conference. Thank you all for joining us, ladies and gentlemen. You may now disconnect your lines.