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**Sub: Q3FY 2021 Results Conference call Transcript**

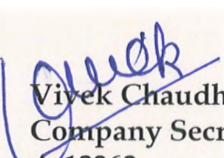
Dear Sir/Madam,

With reference to captioned subject, we hereby enclose the transcript of conference call regarding Q3FY2021 results which was hosted by the Company on Monday, 15<sup>th</sup> February, 2021 at 14:30 hours IST.

Kindly take the above information on record and acknowledge the same.

Thanking you,

Yours faithfully,  
For **HEG Limited**

  
Vivek Chaudhary  
Company Secretary  
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Corporate Identification No.: L23109MP1972PLC008290



## “HEG Q3 FY21 Earnings Conference Call”

**February 15, 2021**



**MANAGEMENT:** **MR. MANISH GULATI – EXECUTIVE DIRECTOR, HEG LIMITED**  
**MR. OM PRAKASH AJMERA – GROUP CFO, HEG LIMITED**  
**MR. GULSHAN KUMAR SAKHUJA – CFO, HEG LIMITED**

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



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**Moderator:** Ladies and gentlemen, good day and welcome to HEG Limited Q3 and FY21 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 Agrawal – Head, Institutional Equities at SKP Securities Limited. Thank you and over to you, Mr. Agrawal.

**Navin Agrawal:** Good afternoon, ladies and gentlemen. On behalf of all of us at SKP Securities, it is my great pleasure and privilege to welcome you to this financial results conference call with the leadership team at HEG Limited. We have with us Mr. Manish Gulati – Executive Director; along with his colleagues, Mr. Om Prakash Ajmera – Group CFO; and Mr. Gulshan Kumar Sakhuja – CFO. We will have the opening remarks from Mr. Gulati, followed by a question-and-answer session. Over to you, Mr. Gulati, for your opening remarks.

**Manish Gulati:** Good afternoon, friends and welcome to our Q3 FY 2021 con call. In comparison with the first two quarter results, HEG's third quarter performance was stronger, supported by improving global market conditions, global steel sector growth, rise in steel prices, capacity utilizations, etc. As per the recent data released by World Steel Association, global crude steel production reached 1,864 million tonnes for the calendar year '20, down by 0.9% compared to 2019. Steel production ex-China was down by 7.7%, which is an improvement over previous expectations when COVID started. China's steel production increased by 5.2% compared to 2019, with increased China's share of global crude steel production from 53.3% in 2019 to 56.5% in 2020. China's electrical arc furnace steel production growth remained strong, in line with the governance push to replace polluting steel capacities and now comprises 12% of their steel production, up from 6% in 2016 and is expected to touch 20% in the next 3-4 years. China's export of steel continued to decline this year also. After declining about 30% in 2017, it continued to decline by another 8% in 2018 and was down 17% in calendar year '20 compared to calendar year '19, helping the rest of the world produce more steel.

Now coming to India. As per WSA, Indian crude steel production registered a decline of 10.6% compared to preceding year. India continued to maintain its position as the second largest steel producer in the world after China. Indian steel industry's capacity utilization started to improve from about September-October of '20 onwards. Along with price increases and boosting profits of steel mills in the last two quarters. Steel prices in India and worldwide, as you would know, have shown marked improvements since last 3 to 4 months. The steel mills globally who had increased their electrode inventory due to panic buying in the years of 2017, '18 and a part of 2019, have now liquidated their electrode inventories and at present, most of the mills are working at the normal inventory levels for electrodes. Thus, the increasing level of steel production is translating to increasing demand for electrodes. Going forward, we expect our capacity utilization to be around 80% for the next year and electrode prices to start improving from next quarter onwards, resulting in improving margins for our industry.



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We have put our expansion from 80,000 tonnes to 100,000 tonnes on hold for about 6 months when COVID started, which we have resumed and we expect to complete the project by end of 2022. I would now hand over the floor to our group CFO, Shri O.P. Ajmera; and our CFO, Shri Gulshan Sakhuja, to take you through the financial numbers. And then together, we'll be very happy to answer any queries you may have. Over to Mr. Sakhuja.

**Gulshan Kumar Sakhuja:** Thank you. Good afternoon, ladies and gentlemen. I will now briefly taking you through the company's operating and financial performance for the quarter under review.

The third quarter started on a positive note, with revival in demand aided by higher steel production and reduced inventory levels. For the quarter ended December 2020, HEG registered revenue from operations of Rs. 319.59 crores as against Rs. 322.88 crores in the previous quarter and Rs. 393.69 crores in the corresponding quarter of last financial year. EBITDA including other income stood at Rs. 24.08 crores in Q3 FY21 versus a negative of Rs. 25.45 crores in the previous quarter and Rs. 32.02 crores in the corresponding quarter of the last financial year. The company reported a net profit of Rs. 4.68 crores in Q3 FY21 as against a net loss of Rs. 33.91 Cr in the previous quarter.

The company's capacity utilization stood at 75% in Q3 FY21 as compared to 74% in the previous quarter. The performance was encouraged by the improvement in business activity, which was offset by lower realization as pricing continued to remain under pressure. Our balance sheet remains robust with a treasury size of about Rs. 1,450 crores at the end of December 2020. The company has made a detailed assessment of its liquidity position and the recoverability and carrying value of its assets, comprising property, plant and equipment, intangible assets, right-of-use asset, investments and inventory and trade receivables. Based on the current indicators of future economic conditions, the company expects to recover the carrying amount of these assets.

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. 1,450 crores, yielding an average return of approximately 6.5%. In Power segment, during 9 months ended 30<sup>th</sup> December 2020, the company has utilized this thermal power capacity in order to liquidate this coal inventory, which in turn has provided additional liquidity to the company. Our working capital is in line with the historical cycle with customers paying us as per the terms. We continue to make payments to our vendors as part our obligation to make sure that they are supported at this hour of need. All statutory dues were being paid on respective due dates, hence, there is no liquidity concern. Now we would like to address any question or queries you may have in your mind. Thank you. Questions and Answers

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Sonali from Jefferies India.



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**Sonali Salgaonkar:** My first question is regarding the demand scenario in terms of both domestic as well as export markets. You did highlight some comments about the demand in your opening scenario, but any further details on that would be helpful, sir?

**Manish Gulati:** So you see if our markets are basically rest of the world, excluding China and the good thing is that the capacity utilization of the rest of the world, we have seen a marked improvement in last two quarters and they have come up in a very good way. The capacity utilizations have increased from a level of, let's say, 55% to 60% to now 70% to 75% globally if you just exclude China. So that is where our demand is coming from. In India also, I'm sure you've noticed the kind of capacity utilization they're having now. They're operating almost at 85% capacity as a total and the prices it's well-known the way the prices are increasing in the last 3-4 months. So that way, the profitability of Indian steel companies is getting a boost, even global companies are getting a boost. The impact of COVID, which was more predominant earlier, is now lesser felt as the steel production gets back to where it was during the pre-COVID times. So that is the healthy part. And the other thing where the demand is coming from is that the inventories which were excess in the market and every customer was holding 4 to 6 months of inventory and also they were having contracts, commitments. So all that has about got over now. So whatever steel production is happening now, it's translating into real demand, which is what we are observing. And our capacity utilization is also going up. Next year, certainly, we expect much better capacity utilizations compared to this year.

**Sonali Salgaonkar:** My question was on the capacity utilization as well. For example, Europe is the main EAF, one of the EAF producing nations. So is it really back on track, like on the pre-COVID levels, especially because 70% of our mix is exports and we are enjoying such good capacity utilizations at 75%, hence the question?

**Manish Gulati:** See, right now, if you still look at European countries and you just compare calendar year '20 with '19, they're still down. What I'm trying to say is that in the last quarter, it's a much improvement over the preceding quarter. So if you look at the main countries like Germany, France, Italy, they're still down compared to that 2019 level. But they have climbed up in the previous quarter. I mean just to put a figure on it, let's say, in April to June, the rest of the world made 167 million tonnes of steel per quarter April to June. July to September, it climbed up to 189 and October to December, it climbed to 208. So it is just a shade below the level of 210, which was when the COVID started, which was Jan to March. So it is now coming back to that level of quarterly steel production. So there's an improvement, no doubt. But if you add up the year and compare year-on-year, they're still down. But if you compare quarter to a quarter, if I compare October to December quarter of steel production in rest of the world compared with Jan to March, it's almost there. I mean they've reached as far as the quarter is concerned.

**Sonali Salgaonkar:** My second question is on the electrode pricing trend directionally. Now in your opening remarks, you did mention that you are expecting the electrode pricing to increase from the next quarter. I believe you were talking about Q1 FY22. What could be the key drivers, which helps



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you to envisage this kind of increase, especially given the backdrop that electrode prices have been weakening for the past 2-3 years?

**Manish Gulati:**

Yes, true. So that if you compare with the boom time when electrode prices shot up to as high as \$15,000, definitely, they were in excess of \$10,000 for a few quarters. So that was a very unique situation. And there was a rapid correction after that to the extent that you have seen our results that most of the companies in our industry had to take a big write-downs on inventory. And now they have reached a level where, what I was saying, the enabling factors that steel production is going up, steel company's profitability is going up, excess electrode inventories are out of the system. And we have to earn margins. We always have a lag kind of effect with steel industry. So when they go up a quarter later, you will see the electrode prices also start firming up. Today's prices are not remunerable at all, they have to start firming up now. So whatever that suffering part was there in the last year, so that is, I believe, now behind us, the supply chain is lean. There are no excess inventories anywhere and I'm very hopeful, very confident that prices will start firming up from next quarter onwards.

**Sonali Salgaonkar:**

When you say the supply chain is lean, you are mentioning for both domestic as well as exports, right?

**Manish Gulati:**

Yes. More for exports than domestic because in India, you'll still see that our electric arc furnace is still 30%. The 70% is still either a blast furnace-based operation or induction furnace-based operation. I'm talking about more for global. In India, yes, companies did have inventories more than normal, but they were not of the type that global companies had gathered because the Indian companies always knew that the two big electronic companies are there in India. So they didn't buy 6 months' worth of electro to store, but there are companies in the world in the Middle East and in Southeast Asia, even in U.S., they bought a lot of electrodes. They thought electrode prices are going up, let's buy-buy, buy and buy whatever price, because for them, it was 3% to 4% of the cost. So they overbought. So that overbought thing could have corrected even two quarters earlier, but then COVID happened and all these things happened. So even steel production went down in the COVID times and by now, we have a sense, we can feel that then customers come and ask for electrodes, we know what kind of deliveries they are talking about and in any way, we are in touch with all the companies. So we know that excess inventory is now flushed out of their system and they are at normal working inventory levels, depending upon where they are situated. If anybody was working with 1 month, he's now working with 1 month, not 6 months.

**Sonali Salgaonkar:**

What will be the normal inventory cycle, about 2 to 3 months or lower than that?

**Manish Gulati:**

Actually, it depends geographically where you are. Like, for example, a company in Middle East would like to keep 2 months. A company in India would like to keep 15 days, not a month. Very rare, you'll see a company who'll buy for a month because the 2 companies are here. So depending upon country to country, where you are, a company in Southeast Asia would like to



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keep 1.5 months or something. Depends on the lead times, etc etc and the safety stock. So everybody who have that sense that electrodes are becoming short and prices are going up and most of the companies overbought. So that situation is corrected. So now this is a normal market situation. If there's more steel production, there is going to be more of electrode demand.

**Sonali Salgaonkar:** My next question is on the needle coke trend. I think last quarter also you mentioned that needle coke pricing was weak. Just wanted an update on that aspect, sir. Where are the needle coke prices? And how do you foresee them to pan out? I know it's difficult considering it's a bulk commodity, but directionally, if you could give us some sense, that would be helpful?

**Manish Gulati:** So let me put it this way that the whole of the calendar year '20, we had excess of needle coke inventories. So whatever happened in this year, the prices did go down on needle coke, but we didn't get benefited because we were not buying anyway. We just bought a little quantity which was required for a particular grade or particular size. So that's what we bought, minimal buying we did. So prices did touch a rock bottom in the middle of 2020 and now when customers like us are back in the market, the needle coke prices are going up. So as I said, we didn't buy much in 2020, but now we are buying. So they have definitely more than the rock bottom, they had reached. Please do not ask me to put a number on it because that becomes quite sensitive, competitively sensitive. But they are definitely on their way up and it's just like we are a lag to steel industry, the needle coke supply is also lag to us. So maybe their prices might start firming up.

**Sonali Salgaonkar:** You mentioned needle coke is at a lag to electrode pricing?

**Manish Gulati:** Yes. For our electrode market, electrode demand. See, last year, the unique situation was that most of the electrode companies in the world already had enough of coke. So nobody bought their coke. So they tried hard. They brought down the prices, just to boost up a little bit of their sales. But nothing much happened. And now when the steel industry is looking up, more or less all the inventories are out, maybe for us, for sure, for other companies also, we feel. And now we are back in the market to buy needle coke. So then their prices will also start to firm up. That's our guess.

**Sonali Salgaonkar:** The next question is on the CAPEX outlay. You did mention that you are now resuming the CAPEX capacity expansion of 20,000 metric tonnes. And we expect to commission that in the next 18 to 24 months, what will be the total outlay and how much of that would have been spent already?

**Manish Gulati:** See, it was 1,200 crores as a total, about 450 crores is already spent, about 650-odd crores would be spent in '21-'22 and the balance would be probably will get spilled over to next year. Depends when our payments become due for all these equipments together eventually shipped and LCs charged that way.



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**Sonali Salgaonkar:** But what about the China excess capacity of electrode? Is it also now getting captively utilized or any sense you could just help us with in terms of the excess supply of electrode in China, which had come up about 2-3 years back?

**Manish Gulati:** Yes, that was a pain, actually. You see their electric arc furnace steel, the projections not go as they had planned. If you remember or if you were tracking us earlier, they were talking about reaching 20% of their steel production by electric arc furnace route in 2020. And they are not there. I mean they're still at 110. So no doubt, they have come up from a level of 6% to 12%, but they're still much short of 20%. So had that materialize, they did put up electric arc furnace mills, but still some of their costing from blast furnaces are still proving to be cheaper. But they are definitely on that path. I mean the year has moved forward. So we were expecting them to be making 200 million tonnes in 2020. And as it was publicly declaring also, but probably that will take another 3 years to happen. So that will soak in a lot of excess electrode production happening in China but we have to look at it as a qualitative point of view that still in the ultra-high power grade segment. We do not really see them as a credible challenge. But in the lower grade, yes, they are and for 25%-30% portion of our business, yes, we compete with Chinese. But for the UHP, still we believe that we have an qualitative edge on that. So whatever excess capacities are there in China, they're more geared for the small sizes or medium-range sizes and we'll be very happy if electric arc furnaces come up soon that excess production, which they are exporting, might get consumed within China itself, a large part of it at least.

**Sonali Salgaonkar:** What was the capacity utilization in Q3 FY20? This quarter, you mentioned it was 75%. But Q3 FY20, correct me if I'm wrong, was it 50%?

**Manish Gulati:** No, Q3 was 75%, that's what we said and Q1 was a little less than 50% because of that COVID thing and Q2 was, again, in 70%. Now Q3 is 75%. Q4 again would be in 75% or even 80% if I can talk about sales utilization also instead of the production based. So it will be Q4, we expect it to be 80% and next full year, we again expect it to be around 80%.

**Sonali Salgaonkar:** I was actually checking on last year same quarter, Q3 FY20?

**Manish Gulati:** Q3 FY20 was very less. Actually, it was 50%.

**Sonali Salgaonkar:** I understand, sir. That's it from my side.

**Manish Gulati:** Yes.

**Gulshan Sakhuja:** Yes. It's 50%, sir.

**Manish Gulati:** Yes.

**Sonali Salgaonkar:** 60?





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- Gulshan Sakhuja:** 50.
- Moderator:** The next question is from the line of Pritesh Chheda from Lucky Investment Managers.
- Pritesh Chheda:** I wanted to know what is now the incremental spreads that we earn on electrodes, which is electrode price minus the needle coke?
- Manish Gulati:** See, right now, it is all mixed up because we have taken that NRV hit also. So we have a certain needle coke in our system, in our WIP and FG's which are valued at a certain price. So once all these inventories are out of the system, maybe from next quarter onward, we can have a spread between the electrode prices of the day and the needle coke prices of the day. But right now, in our system, we still have inventories which were written down at a particular price. So it is difficult to talk about spread today, but we will see in next quarter onwards, then we will not have this inventory issue to talk about.
- Pritesh Chheda:** About this inventory issue as on date, the needle coke price and the graphite electrode price, what spread do they lead for us?
- Manish Gulati:** That I would not like to disclose or not like to put a number on it, actually.
- Pritesh Chheda:** And sir, with this 20,000 tonnes capacity addition, we go to 120,000 as our capacity, right?
- Manish Gulati:** No, 100. From 80,000 to 100,000.
- Pritesh Chheda:** And this 80,000 tonnes, can you operate theoretically at 100% or lesser?
- Manish Gulati:** Almost. You see, when we calculate this capacity, product mix plays a big role. Even if you look at others capacities also, if you're at 80,000, probably, I would say, sure. If you have the right the ideal product mix, it is very much possible. But with an imperfect product mix, the product mix not of your choice, it actually should be around 75,000 or 76,000 tonnes.
- Moderator:** The next question is from the line of Bhavin Chheda from Enam Holdings.
- Bhavin Chheda:** In the last month presentation, you had said that globally 20 plants were operating now as compared to 24, 2 years back and there were four plants closed down, which had a total capacity of 60,000. So can you update now whether those four plants have restarted or they are still in a shutdown condition?
- Manish Gulati:** No. They are still in shutdown. You see, I think we talked about two plants in Europe with Showa Denko shutdown, one was in Austria, Steeg and one was in Meitingen in Germany. So they are permanently shut down. There's no way they would come back up again because that's a strategic call those companies have taken. Basically, these are age-old plants, they are not efficient anyway, so once they are out of the system, normally, you wouldn't see those very plants come



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back, maybe capacity gets added here and there when the demand picks up. But normally such plants which were made in 1960s or something, once those companies decide to close them down, they usually don't bring them up as such. If the demand goes up, they would like to add here and there, but this capacity is permanently out of the system.

**Bhavin Chheda:** So ex China and Russia, roughly that table sold capacity of 724,000, which stands and which you're saying currently would be the demand ex China, Russia, those would be operating at roughly 80% odd t now?

**Manish Gulati:** You mean their capacity utilization?

**Bhavin Chheda:** Overall industry, I'm saying roughly, or you can give us on the demand. So roughly ex China, Russia, the capacity was around 724,000 tonnes. So the 724,000 tonnes would be operating at, what, 70%-75%-80% or whatever number you can share or...

**Manish Gulati:** See, from the 724,000, I think you're referring to a table which we have shown earlier. So there is further down with these two latest plant closures. That should be around 650,000 or something. I can check and revert to you because that 724,000 was including the two plants which were shut later.

**Bhavin Chheda:** Because I just said that number which you had shared in the December which had a total of 20 plants, I think SDK and GTI, both were at 200,000 tonnes. Tokai was at 96,000, HEG 80,000, Graphite India at 85,000, CK at 32,000 and SEC at 27,000. That's how 724,000 was the total. So you are saying over and above that, two more plants have closed down?

**Manish Gulati:** Yes. You have to take off about 40,000 out of this and also the Graphite India's Bangalore plant is also shutdown.

**Bhavin Chheda:** I think Graphite India was already deducted. Graphite capacity was in that table shown at 85,000, three plants.

**Manish Gulati:** See, I have the table in front of me, which you are referring to, which is adding to 725,000. So that 725,000 did include Bangalore and did include those two plants I'm talking about of Showa Denkos, which was shutdown. So I can see that this figure was shared with you last time.

**Bhavin Chheda:** So this 724,000 is down to, you're saying, around 650,000?

**Manish Gulati:** Yes.

**Clarification:** **The correct figure after considering all closures till date is 723,000 tons. In this figure of 723,000 tons, Graphite India capacity is considered as 98000 tons as per their declaration. It was an error from our side to mention 650,000 tons.**



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- Bhavin Chheda:** So three more plants shutdown or four more plants got shutdown?
- Manish Gulati:** Three, I would say. Two in Europe after the last call and one in Bangalore. Three.
- Bhavin Chheda:** So that's a very big number, sir. So you're saying that this probably won't come back. So now if I'm trying to look from 2017, which was a comparable number, you're saying that the ex China, Russia is down from 783,000 to roughly 650,000.
- Manish Gulati:** Yes.
- Bhavin Chheda:** So one is that and now taking into, how much does the China sends to the world? So has this capacity been shut down and replaced by supplies from China or China doesn't disturb the global market in a much way except for the Middle East and few countries, which they export?
- Manish Gulati:** No. China doesn't really matter much for the UHP grade market. Still the companies' investors, they still rely on neither the Showa Denko or GrafTechs or even HEG and others, but China is still not as a significant player in ultra-high-power grade. If you ask me to know of any steel company which has given 50% of their business, UHP business to Chinese, I will not be able to tell you many such people who have actually doing a trial here and there is one thing and actually depending upon Chinese for supplying a large portion of their requirement year after year is another thing. So while sometimes here and there keep happening, but I don't think that we have a situation that the big steel groups in the world are relying on China to meet 30%-40%-50% of their ultra-high power grade requirement.
- Bhavin Chheda:** My next question was, again, last time when we discussed, you said needle coke contracts historically, which used to be half yearly and yearly contracts, now due to extreme volatility the pricing is more changing into something kind of a monthly contract, though the volume contracts still are half yearly and yearly. So can you update that both on the electrodes and needle coke, how the contracts are happening? First on the electrodes, I believe India has a monthly pricing. So I'm assuming that is more of a monthly contract now and that is for domestic and export market, both. And similarly, if you can update on needle coke, how the contracts are happening? Though, I think you're not sharing the prices, but if you can just update on how the contractual nature of the business heading towards?
- Manish Gulati:** Yes. It's still quarter-by-quarter. I mean we are also offering in the market quarter-by-quarter and the needle coke people are also offering to us quarter-by-quarter still. So I mean, like we'll probably now talk about April to June supplies of needle coke. In markets also, we are at that same level. In global markets, particularly, we try talking about April to June in India because we are local suppliers, we decide. Quite late when all the costs are known, everything is in place, we decide. For example, a decision to offer in India for April to June, doesn't happen before early March because that time is sufficient to deliver. We know our customers. We keep the electrodes ready for them. I mean we keep them in the pipeline. So the decisions in India are



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happened quite close to the actual buying and in exports because of the lead times, they happen a little earlier. But it's more or less a quarter-by-quarter. Quarter-by-quarter, we are offering and quarter-by-quarter, the needle coke people are offering to us.

- Bhavin Chheda:** This helps a lot. And what would be the latest net cash balance as on December?
- Gulshan Sakhuja:** Yes. Gross treasury, we are having are 1,450 crores. And the net after working capital borrowing, it is 1,250 crores as on 31<sup>st</sup> of December 2020.
- Bhavin Chheda:** And my last question would be on your sales mix into UHP and other grades and as sectoral thing also, entire sales go through steel sector or you sell something on the EV also?
- Manish Gulati:** No. EV doesn't find any use for graphite electrodes as such. Entire sales are going for steel industry. There is a very small market of titanium smelting, magnesium, silicon these type of companies and there also we sell some of the portion, but that is minute. It wouldn't even amount to 1% to 2% of our sales.
- Bhavin Chheda:** What would be your UHP grade sales in the overall and lower grade?
- Manish Gulati:** It varies year after year. But generally, it stays like 70-30, 75-25. It depends. Actually, if there is more demand from the electric arc furnace segment, then UHP sales go up fast. And if there is subdued demand, then at least the needle furnace, the small-size business is still more stable because that also goes to blast furnaces for refining of steel. So that is a little bit of a fluctuation. So you can say, let's say, 70% to 80% is normally our UHP grade sales and 20% to 30% is our non-UHP grade sales. This again, as a 3-4-year average, I would say, every year it varies a little here and there.
- Moderator:** The next question is from the line of Pratim Roy from B&K Securities.
- Pratim Roy:** Just my first question is that we are going to expand our capacity. So my question is that the global needle coke availability is on a lower side. So how we can procure that needle coke? Will it be a challenge for us? That is my first question and the second question is that in 2018 and after that, there is lots of Chinese capacity addition and the graphite electrode side is on hold due to some credit issues as well as the environmental issues. So can you please provide any update on that, whether China will come out in more capacity or something like that?
- Manish Gulati:** See, China has a large capacity of electrodes, there's no doubt about it, but their more focus is on the high-power grade rather than the ultra-high-power grade. They do make some sizes in the ultra-high power grade. Most of it which gets consumed within China. Some little bit of that, that gets exported and they keep making trials here and there. But there's still not like, a proven supplier to the main steel companies who would rely on them to provide them 30% to 50% of their annual requirement. So it's not at that level. But yes, our customers sometimes do use this



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as a tool to us that Chinese UHP pricing is X or Y or Z. But the moment you ask them, okay, go ahead and place 50% orders on China, then they don't do that.

**Pratim Roy:** In the needle coke side, I have a question that in the capacity expansion part, how you can procure needle coke? And will it be a challenge in the long-term because needle coke is a shortage? So if you can throw some light on that.

**Manish Gulati:** I forgot to answer that question, you had asked this earlier. No, we do not foresee this as a challenge because there was a time when there was only petroleum-based needle coke available. But now there's also coal tar pitch coke-based needle coke available. Although it's not a perfect substitute, but yes at least it provides an alternative with which you can make the smaller size ultra in ultra-high power grade, but it is still not the exact substitute of the petroleum-based needle coke, but it does help in the demand-supply balance. So the answer to your question is that no, we do not foresee risk of needle coke getting short.

**Pratim Roy:** Just trying to understand, sir. It's a linked question. So if we can't provide the petroleum-based needle coke, then the quality of the product may not be that superior. So is it a problem to higher realization or we should compromise to realization with the needle coke?

**Manish Gulati:** I will answer this question in this way, that up till a certain size, they are just equal. Beyond a certain size, then petroleum-based needle coke gets a shade better. So by saying that this is an option, it is not a poor substitute, I would say. I mean it's still some sizes it works exactly like the petroleum-based needle coke, exactly. So at least it gives us an option to have some alternate material available.

**Moderator:** The next question is from the line of Dewang Sanghavi from ICICI Securities.

**Dewang Sanghavi:** Can you please guide on utilization what you're targeting for next year and any early change on the pricing as compared to FY21 for FY22?

**Manish Gulati:** Dewang, did I hear you clearly, are you asking about capacity utilization for next year?

**Dewang Sanghavi:** Yes, sir. I joined a bit late. Apologies, if this question has been asked earlier.

**Manish Gulati:** Gulshan, I'm unable to hear what exactly is Dewang saying?

**Dewang Sanghavi:** I'm asking the utilization levels for next year and early trends on the pricing for next year?

**Manish Gulati:** See, next year, we expect the capacity utilization at 80%. This is what I said in my opening remarks also. And I think answer to some other person, 80% and we expect the price to be firming up from April to June quarter.



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**Dewang Sanghavi:** And this needle coke inventory of high cost that will be utilized by Q4 and we will not have anything in next year. Does the understanding correct?

**Manish Gulati:** There'll be still a little bit of quantity left, which will blend with the new arrivals and it will blend in April to June, but certainly, after June, there'll be hardly anything. But now already, the inventories are quite at a lower level. When we go to the next year, we'll still have some quantities still left in the system because only because of our processing time of 2 months for electrodes, but that will blend with the arrivals of new coke at new prices.

**Moderator:** The next question is from the line of Ujjwal Agrawal from New Horizon Financial Group.

**Ujjwal Agrawal:** And my fellow participants have asked some really intelligent questions regarding the operations of the company and you've answered them quite tight satisfyingly. I have two questions pertaining to the financials, actually. My first one is that we are carrying somewhere in the handle of 1,450 crores in cash right now, right?

**Gulshan Kumar Sakhuja:** Yes.

**Ujjwal Agrawal:** Do we have a policy regarding that we'll hold so much percent of cash of the portfolio, something like that? Can you please tell me about that?

**Gulshan Kumar Sakhuja:** Yes. We are having this internal policy of management of treasury that we have to invest only in AAA papers and not to deteriorate our quality of the papers to go AA or (AA-), like that way. We are doing more into the fixed deposits and corporate deposits again of AAA category. And we never compromise our returns with the quality of paper. So whatever the treasury that we have been carrying as on date is of a AAA category and yielding a return of 6%-6.5%, approximately.

**Ujjwal Agrawal:** 6%-6.5%.

**Gulshan Kumar Sakhuja:** Yes.

**Ujjwal Agrawal:** Now what I was going to suggest, it is a suggestion. You can look into it. What I was going to suggest is regarding the interest rates being where they are, quite low, so if there is a possibility, could you please look into returning some of that back to the stockholders? That's a suggestion. And now my second suggestion would be the stock price of the business, what I'm going to say is that it deters the smaller investors from coming into it. So can we look into splitting the stock into smaller chunks or something like that? That's also just a suggestion. And that's all from my side.

**Gulshan Kumar Sakhuja:** Okay. Thank you.



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**Moderator:** As there are no further questions, I will now hand the conference over to the management for closing comments.

**Manish Gulati:** Thank you, friends. Thank you very much for attending our call and we hope to come back to you with next quarter results with more optimism, maybe better-looking numbers. Thank you very much.

**Moderator:** Thank you very much. On behalf of SKP Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.