



HEG/SECTT/2023

24<sup>th</sup> February, 2023

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**Sub: Transcript of Earnings Conference Call on Q3FY23 of HEG Limited**

Dear Sir/Madam,

Please refer to our Earnings Conference Call scheduled on 20<sup>th</sup> February, 2023 intimated vide our letter dated 16<sup>th</sup> February, 2023. 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.heg ltd.com](http://www.heg ltd.com).

This is for your kind information and records.

Thanking You,

Yours faithfully,  
**For HEG Limited**

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“HEG Limited  
Q3 FY '23 Conference Call”  
February 20, 2023



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

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



**Moderator:** Good day, ladies and gentlemen. Welcome to the HEG Limited Q3 FY '23 Earnings Conference Call organized by SKP Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the management's opening remarks. Should you need assistance during the conference call, please signal an operator by pressing star 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. It's my pleasure 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, and Mr. Gulshan Kumar Sakhuja, CFO.

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:** Thank you, Navin. Friends, good afternoon, and welcome to our Q3 financial results call for the current year. Geopolitical situation continues to be worrisome with no immediate end in sight resulting in dragging down most of the rich economies around the world. Countries like EU, Japan seem to be the hardest hit with soaring electricity and energy prices, leading to high inflation, high interest rates, etcetera.

Steel production being directly related to the GDP of any country saw a decline of 4.4% in calendar year '22 versus 2021. If we exclude China, this fall was even more steep at about 7%. Meanwhile, the developed as well as the developing world continues its efforts to decarbonize and reduce greenhouse emissions and have pledged large sums of money to be carbon neutral in the next 25 to 30 years.

As most of you are aware, steel produced through electric arc furnace emits 3 times less carbon than similar steel produced by blast furnaces. This is giving a fillip to many new electric arc furnace plants being announced in several parts of the world. More than 20 million tons of greenfield electric arc furnace have been announced by the US alone. Out of which 7 million tons have already started production in the last 12 months, while another about 14 million tons would be in operation in the next 12 to 24 months, adding to large electrode demand. Similarly, many large steel producers like Arcelor Mittal and many others have also announced a replacement of about 16 million to 18 million tons of electric arc furnace capacities in Europe.

As per World Steel Association, electric arc furnace, excluding China, has grown at a 4% CAGR for the period 2015 to 2022 and now accounts for 49% of total steel production, up from 47% about two years ago. China, although lagging behind in this effort and producing only 12% through electric arc furnace, is also on the path to increase its EAF share of steelmaking to about



20% in the next three to five years as they also make efforts to control carbon emission. We believe electric arc furnace steel production growth in the region to be in the 4% CAGR, in the next decade, which could see an increase of about 200,000 tons of additional electrode demand.

In the short term, the outlook for the steel industry appears to be bearish. Steel demand is still being impacted by the fear of a global recession, but the medium- to long-term growth path for EAF is very clear. Our expansion is almost nearing completion with four different processes, already commissioned and starting to produce.

One shop, the last shop is running three months behind schedule due to delays in arrival of some imported parts and equipments from various overseas suppliers, which have already arrived, as we speak, at the plant, and we expect to complete the full expansion by mid-April and with a brief period of trials and stabilization, it will also come on stream. Our capacity would then be 100,000 tons, making it the most modern and the largest state-of-the-art plant anywhere in the world.

As our industry is very consolidated, with technology in the hands of just five companies and China, although having large electrode manufacturing capacity, but not a very major competitor to us in the UHP, Ultra-High Power space, we believe that our expansion of 20,000 tons is fairly well timed and will be quickly absorbed by the market.

Friends, now coming to the quarter 3, we operated at 60% of our capacity, which was the lowest in this year. And in the current quarter, January, March, we have inched up to about 70%. We've been able to maintain our product pricing in the past three quarters. This quarter's performance was reasonably good compared to past two quarters despite lower sales of graphite electrodes due to benefit of rupee depreciation and better profits from our hydropower generation facilities in Madhya Pradesh. As is very normal in any business, when capacity utilizations are low, the price does come under pressure, which is what we are seeing as we book orders for Q1 of next year.

Needle coke procurement prices for the past three quarters have been flattish, and we now see some softening in the prices of the needle coke. As we are booking electrode orders for the next three to six months, needle coke procurement is also being done on a quarterly basis. So the movement of needle coke prices cannot be forecasted accurately, although our expectation is that they may soften a bit due to lower demand from electrode industry and abundant availability of coke due to slowing down of off take by all the major graphite producers.

All-in-all, we remain highly positive and confident about the medium- to long-term growth for electrode industry and more so for HEG. We, being one of the most competitive producers in terms of quality and cost and a wide outreach to global markets, which we have developed over the last 25 years and continuously exporting about 2/3 of our production to more than 35 countries.

Meanwhile, as you are aware, we are diversifying into graphite anode for lithium-ion cells, which form the battery for electrical vehicles and energy storage systems. Given that it's the first such plant coming in our country, we see a huge opportunity here in the long term. We have



incorporated a wholly owned subsidiary of HEG in the name of TACC Limited for this new business, and our Board has approved a budget of INR 1,000 crores for setting up manufacturing facility of 10,000 tons of anodes per annum in Phase 1, which should be in operation by Q2 of calendar year 2025. At present, cells and battery packs are all imported into India, and soon there will be a huge domestic demand for graphite anode as cell manufacturing shifts to India. We see tremendous potential for this business in the next three to five years as more-and-more EVs get manufactured in India.

With this friends, I will now hand over the floor to our CFO, Gulshan, to take you through the financial numbers. And then along with Manish, our ED, we'll be very happy to answer any queries that you have on electrodes and Riju Jhunjhunwala, also being present on the call, can answer all the queries pertaining to anode powder. Thank you. Over to Gulshan.

**Gulshan Sakhuja:**

Thank you, sir. Good afternoon, friends. I will now briefly take you through company's operating and financial performance for the quarter ended 31st December 2022. For the quarter and nine months ended 31, December 2022, HEG recorded revenue from operations of INR 530 crores as against INR 598 crores in the previous quarter and INR 597 crores in the corresponding quarter of the previous year. Revenue for the quarter saw a decrease of 11% as compared to the previous quarter and on Q-on-Q basis as well.

During the quarter ended 31, December 2022, the company delivered EBITDA including other income of INR 170 crores as against INR 198 crores in the previous quarter and INR 171 crores in the corresponding quarter of the previous financial year. The company, on a standalone basis recorded a net profit after tax of INR 103 crores in the third quarter of FY 2023 as against INR 130 crores in the previous quarter and INR 109 crores in the corresponding quarter of the previous financial year. The company is long-term debt free and have treasury size of nearly INR 1,015 crores as on 31, December 2022.

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

**Moderator:**

We have our first question from the line of Sonali Salgaonkar from Jefferies.

**Sonali Salgaonkar:**

I missed the number of capacity utilization for your in the December quarter?

**Ravi Jhunjhunwala:**

I said October, December quarter was about 60%. And in January, March, we had in stock to about 70%.

**Sonali Salgaonkar:**

Sir, what was the number a year back in the same quarter, that's Q3 FY '22?

**Gulshan Sakhuja:**

In quarter 3, 2021, '22, that capacity utilization was the range around 85%.

**Sonali Salgaonkar:**

Sir, you did address in your opening remarks the reason for lower demand citing that's on the expectation of a global recession. But could you elaborate more as to which countries particularly you are looking at this different steel production, considering that you are exporting



almost 65% to 70% of your overall sales, if you could help us with the split of export as well as which countries are the main pain points right now?

**Manish Gulati:** Yes. Sonali, as we have talked in the last con call also, we received the pushback of orders from mainly our European customers and -- because that is where about 10% of our total sales go there. So it's not much, but still 10% gets postponed it does impact. And also some people in -- some customers when we started to correct the inventory levels, seeing a gloomy outlook. So that is one market. And also from Turkey, we received some slowdown of demand. So I mean, our US keep going strong, but these are some major countries where we export due to which our sales had to drop to 60% capacity utilization level.

**Sonali Salgaonkar:** So sir, overall split, which would be your key markets and how much would Europe plus Turkey be?

**Manish Gulati:** Europe plus Turkey would be, if we take our total sales, it is about 14%, 15% -- 14%, I would say, Europe and Turkey combined.

**Sonali Salgaonkar:** And then US and Middle East will also -- and Southeast Asia will be your other key markets?

**Manish Gulati:** Yes, that's right.

**Sonali Salgaonkar:** Sir, what are the current inventory levels in the channel you did mention there is some correction in the inventory going on. So I just came to understand what is the level of inventory?

**Manish Gulati:** Right now, our finished goods inventory close to two months, one month is very, very normal for any plant like us because it's -- we make so many sizes, so many variants. But the total put together is usually one month of inventory. And at present, we have two, that doesn't really bother us much.

**Sonali Salgaonkar:** Sir, also on the pricing, you did mention your starting remarks that you were able to maintain the pricing. So are we saying that quarter-on-quarter, there has been absolute stability in pricing in and no dip in terms of electrode realizations?

**Manish Gulati:** The pricing, I mean, very close actually, very, very marginal changes quarter-on-quarter the largely it has been stable up till now.

**Sonali Salgaonkar:** And are you expecting similar stability in pricing going forward? Or are you expecting some weakness?

**Manish Gulati:** In Q1 next year, as we are booking now, we are facing some pressure on that. But that pressure is not like any big fall or any big it is just that everybody is trying to sell that extra ton it makes -- puts pressure on the pricing. That's not -- we're not expecting a major change in that. But yes, if we are looking at 70% today of course, we also try to sell that extra ton. So it will be slightly under pressure it seems for Q1.

**Sonali Salgaonkar:** Sir, and on the capex bit, you have deferred it to, the commissioning, to April 2023. Sir, if I may understand of your INR 12 billion of capex, how much has been spent? And how much you're expecting to spend in the coming quarter?



**Manish Gulati:** See, almost INR 1,000 crores has already been spent out of that INR 1,200 crores. So we have to spend about INR 200 crores more on that. And we didn't defer the expansion as such. It is just that as Chairman said that four of our shops are already up and running actually. And there's one most complicated shop where there is such a variety of equipment coming from US, Europe.

So they have got delayed due to their own, I mean, supply chain issues. And they have also now fortunately, each and everything has been arrived at plant. And now the last remaining shop is getting completed. So let's four shops out of five have already commissions for production. We are just waiting for the fifth one to start in April.

**Sonali Salgaonkar:** And just a last question from my side regarding your new business. That's the graphite anode for lithium-ion. You did mention that you're expecting 10 gigawatt capacity by Q2 CY '25. So what would be the total addressable market for this? So just trying to understand how much are you expecting to cater to?

**Riju Jhunjhunwala:** I will take that question. What we are going to produce in our first phase is 10,000 tons of graphite anode. Now this 10,000 tons of graphite anode would be able to cater to 10 gigawatt hour of cell manufacturing. And by 2025, we expect the Indian battery demand to be around 50 gigawatt hour, which turns into 50,000 tons of graphite requirements by 2025 in India, out of which we plan to produce 10,000 to start with in Phase 1. And obviously, this demand is supposed to go up exponentially from 50 gigawatt hour to 260 gigawatt hour in 2030, which means by 2030, there could be a graphite anode demand of 260,000 tons.

**Sonali Salgaonkar:** And Mr. Riju, have we entered into any technical expertise for this? Just trying to understand how we are going to develop this? And what will be the key raw material is there?

**Riju Jhunjhunwala:** So the technical expertise largely resides within HEG itself. A lot of the processes that are involved in converting carbon into graphite, which is what our USP is in HEG, how to -- because not too many people can do that. That is the single most challenging factor in this anode thing as well. Other processes are fairly, I mean simple in terms of coating, crushing, milling, etcetera. Most of the development that we see technology wise are happening on the cell side. So whether they want to make a little bit of silicon in it, whether they want to mix other things inside the anode. But, so that is not at our end.

Our end, the whole thing is what micron, what size of anode to really produce. So yes, we have taken help from a lot of global experts, individuals, but no real technical tie-up with any particular company to start with. I mean, we have taken a lot of help from a couple of companies in Austria on trying to make sure that to streamline our process, etcetera. A lot of these things that come through from China. But overall, I think largely, the capacity exists within HEG to this company.

**Sonali Salgaonkar:** And on the value chain, does needle coke remain as the key raw material for this segment as well?

**Riju Jhunjhunwala:** No. So that's the thing in this, we can really play around with the raw material for which we have already started our pilot plant we've already installed in our existing graphite plant, which can produce around 100 tons of graphite powder per year. With this, we'll start working with all the



cell companies and what kind of product they need. And depending on the kind of end use of the product, then the raw material could vary from needle coke or very good or very high-end material to the regular Indian coke or imported Chinese coke as well. Today, you must understand 90% of this material is being made in China by Chinese coke. So that's a proven raw material. So raw materials we can play around with as per the customer requirements.

**Sonali Salgaonkar:** And just squeezing in one last thing. Just wanted to confirm if I got the numbers right. In your opening remarks, you did mention that 7 million metric tons of EAF has commissioned in the last 12 months. And over the next 12 to 24 months, we are expecting 14 million metric tons to be commissioned?

**Ravi Jhunjunwala:** Can you repeat that question, Sonali?

**Sonali Salgaonkar:** Yes. Sir, I actually seem to miss out on your opening remarks a little bit. So 7 million metric tons of EAF commissioned in the last 12 months and 14 million metric tons to be commissioned in the next 12 to 24 months. Is that right?

**Ravi Jhunjunwala:** Yes, you're right. And this is only in US. I mean these are the specific number that I gave you was 7 million already commissioned another 14 million, 15 million being commissioned between now and '24, '25 let's say, middle of '25. And then there is another set of 20 million, 25 million tons, which is coming up in Europe, which is a couple of years behind the US.

You see the backdrop is, US produces more than 72% of its steel through electric arc furnace. So they understand the advantages of electric arc furnaces, much more than the Europeans or rest of the world knows. Because typically, as you know, electric arc furnace is close to 49% now, minus China. But US has always been 70% plus. So they have taken the lead in terms of adding more and more electric arc furnaces because of carbon initiatives.

**Sonali Salgaonkar:** And this 20 – 25 in Europe will be commissioned over the next three to four years. Is that right?

**Ravi Jhunjunwala:** We are talking from 2024-'25 to 2028-'29, '30.

**Sonali Salgaonkar:** And this is fresh or conversion from BOF to EAF.

**Ravi Jhunjunwala:** Both of them. I mean they'll be closing down some of the blast furnaces and replacing them by electric arc furnaces. Or in some cases we are also adding electric arc furnace. And as I also mentioned in the last three, four years, according to the WSA, the World Steel Association, the growth of electric arc furnace has been about 4% CAGR, which has led to the total steel production minus China, through electric arc furnace, which used to be 47%, now being 49%. And they do expect this trend to not just continue at 3%, 3.5%, 4% but to move it further north.

Because as more-and-more electric arc furnaces are being established and operating, one can visibly see the drop in the carbon emissions. And that's the backdrop in which we said that we do have a 4%, 4.5% CAGR on electric arc furnace steel production, which is currently close to 50%, let's say, 49%. So doing that math in the next four, five years, would lead to an additional demand of close to anywhere in the region of 200,000 tons, which is a very, very huge number. I mean we haven't seen this kind of growth in the demand of electrodes in the last 20, 30 years.





- Moderator:** We have our next question from the line of Saket Kapoor from Kapoor and Company.
- Saket Kapoor:** Last time during the call you did mention about the Graftech issue and how their nipple issue pertaining to this, they won't be able to proceed with the production. So where are they in terms of the issue? And how is that going to affect the electrode markets going ahead?
- Ravi Jhunjhunwala:** No. I mean we can only talk about whatever we have read or heard from the marketplace. I mean Graftech has very clearly come out with an explanation that I think this Mexican plant was closed for about two, 2.5 months. And apart from the capacity, down due to that closure. The bigger problem in their case was that the entire nipples and that company has four, five different plants in four, five different continents. So 100% of the nipple production used to happen at the Mexican plants.
- And as you know, electrodes are of no use without nipples. So they used to air freight all the nipples to the other four plants as far as Europe and Americas and Africa. So that has led to a lot of mismatch in the nipple availability because of that two months of delay. So probably that is one of the reasons in the recent con call, they have also given a figure, I forget that number. But they have clearly said that their sales in the first half of this year is going to be substantially lower, not only because of the demand slowdown, but more because there has been nipple mismatch.
- You see, just to continue to explain the nipple takes anywhere between four to six months to produce. For different sizes of electrode you need different sizes of nipples. And as you go more-and-more towards the high value-added or the larger diameter electrodes, the timing goes from four months to like six months. So obviously, a two-month stoppage in that process for the entire capacity of 200,000 tons obviously leads to a lot of issues for the next six months.
- Saket Kapoor:** So sir, just to keep this truly apart, had this not been the case, then the sentiment in the market would have been more pessimistic because their capacity is off the table as of now. They are not feeding the market. And then also, we are at 65...
- Ravi Jhunjhunwala:** No, they are feeding the market. I mean that's what I'm saying. I think I forget the number, but they have given a number of the tonnage, which is going to be sold in the market, which is practically 40%, 50% of what their normal sales would be.
- Saket Kapoor:** And this particular nipple product, we are doing it ourselves. We are not dependent on other manufacturers. We are not sourcing it from somewhere else?
- Ravi Jhunjhunwala:** No. No company does this. I mean, everybody produces electrodes and nipples. But in our case, on let's say in case of Graphite India, since there is only one plant or in case of Graphite India and now they have two plants. So nipples are all produced by everybody.
- Saket Kapoor:** Sir, when we look at Turkey being also a very important client of ours, how has this catastrophe affected their demand and their deliverables. So going ahead, what kind of deliverables are scheduled for Turkey or going ahead for this quarter?
- Ravi Jhunjhunwala:** Manish.



- Manish Gulati:** So I would like to put it this way, circle that what they told is a public statement that their ability to service some orders will be impacted because of this problem, which they had last in -- more than a month. So there has been interruption to that extent from their side. But additionally, they have said that in the European plants, they will be working at 1/3 of the production capacity for 2023, but they've been silent on what reason is that whether it is demand, nipples whatever, but they did publicly state it here that their ability to service some orders in Q1 would be impacted, H1 rather.
- Ravi Jhunjhunwala:** No. I think his specific question was about Turkey. The problem of Turkey.
- Saket Kapoor:** Yes, sir. If I may put it in a way sir, what were the quantities for Turkey for December quarter? And how are the deliverables being scheduled for the March quarter? So that would give us some more color and you may also add more...
- Manish Gulati:** See, every year in tonnage terms, we supply about 11% or 12% in Turkey. So that was now down to, let's say, I would put it this way, 6% or 7% in Turkey, if the stocking about actually.
- Saket Kapoor:** So the schedule for March is half the tonnage what we have done for December?
- Manish Gulati:** Yes, you can say that whatever we were selling in there, which over the year is just total it up, it's probably going to be half of that.
- Saket Kapoor:** And you did mention that the near-term outlook still sounds bearish. So if you could elaborate more, is it totally aligned to the lower utilization levels for the steel industry? And how are you seeing this dynamic changing ahead? Barring this shift towards the approved other than that, what factors would you see that that would lead to reverse that? When you were telling the lower utilization levels for March even for the first quarter, if you could throw some more light on the same.
- Ravi Jhunjhunwala:** Manish, continue.
- Manish Gulati:** Yes. So I would like to say that this 70% capacity utilization, which we are talking about January to March is likely to continue for at least two more quarters. The major reason for this lower capacity utilization is the drop in steel demand, drop in steel consumption. And then we expect to continue for at least two more quarters and what we can foresee. But eventually, of course, this the new year, so everything is coming, taking effect would try to reverse this slowdown in, I mean, the demand. I mean the total steel production made from the EAF that is our expectation.
- We should be in 70% that to March. I think we should be at 70% level for the first half. And as our other industry players are also saying that we expect a turnaround by the second half. And obviously, people may not say so, but everybody assume this someday get over and their steel back on track.
- Ravi Jhunjhunwala:** One thing positive is, you see, as I said, America is the only country which produces more than 70%, 75% of steel through electric arc furnace. And America, probably is the largest steel producer after China and India, and maybe Japan and America more or less are in the same range. So 70% of that is steel electric arc furnace and that is where they're adding another 20



million, 25 million tons. And for a very long time, America has been a fairly large customer base for us. We have started exports to America more than 25, 30 years ago.

And we have been able to nurture America fairly well over the last five, seven, 10 years. So we continue to add more-and-more customers every year and not only more-and-more customers, but we're selling more-and-more tonnages also in America. So this is just incidental is that we have been in America for a very long time, and that is where the largest growth of electric arc furnace is happening.

**Saket Kapoor:** And sir, just to conclude, you also mentioned about the needle coke pricing to be on a quarterly basis. Were you hinting towards that because the line got disrupted at that time. So what is the current...

**Ravi Jhunjhunwala:** Quarterly. You're right.

**Saket Kapoor:** And currently, how it is done as of -- for this financial year, are we doing the long-term contract or a contract size is -- the period is greater?

**Ravi Jhunjhunwala:** For the last three, four quarters, it has been quarterly.

**Saket Kapoor:** So sir, taking that into account and the RM basket, I think the needle coke is the largest component. How should we expect the margins to be going ahead, a ballpark understanding?

**Ravi Jhunjhunwala:** Manish, would you answer?

**Manish Gulati:** Yes. Sir, how we look at it is we look at the spread between what the price of electrode we can get from our customers and what we have to pay to our needle coke producers. What the trend which is there is that yes, there is a slowdown in demand. Like if we are at 70% today, other players are also around that level. I just saw that I think one of the major competitors also around 68%. So that will result in more than enough availability of needle coke in the market. So therefore, we expect some respite from needle coke people also to adjust their pricing a bit.

So if we lose a few dollars on the electrode price and we gain that same on the needle coke price. So that way, our margins, what you have seen this quarter should remain that way, maybe numbers slightly here and there. I cannot say really, because we don't know what needle coke suppliers will come up with, what kind of pricing they will come up with. So we are more concerned about the spread. So if there's a depression in needle price consequently get some respite for needle coke people, so we are able to maintain margins.

**Saket Kapoor:** And on the power and fuel part, sir, I think so we have 70% to 80% captive and how is the power and fuel line item shaping up? And how much dependence is on the external source?

**Manish Gulati:** See, our power comes from the state electricity board and that prices are good, which we have, they have been stable for some time and likely to be stable in the near future also. And we have those two coal-based power plants, which we are not running at present.

**Saket Kapoor:** What is the cost per unit, sir, currently?



- Moderator:** Mr. Kapoor, I request you to join back in the queue.
- Saket Kapoor:** Yes, ma'am. Manish sir, could answer the call.
- Manish Gulati:** Yes. I would like to say it on this call. But after this call, certainly, I can call and share what kind of pricing of electricity is. But not at this forum.
- Ravi Jhunjhunwala:** It's a fixed price kind of a contract for a certain number of years.
- Moderator:** We have a next question from the line of Amol Rao from Kitara Capital.
- Amol Rao:** I just would like to know that last quarter, we built up our FG inventory of around INR 400 crores. And this quarter, we seem to have done something similar. So considering that, I mean, we've noticed some softness in the offtake of electrodes, what would be the rationale for building up inventory because we're not really the sort to take balance sheet heavy kind of business in our practices. So why are we building up this finished goods inventory, if I may, if I could get some clarity on that?
- Ravi Jhunjhunwala:** I'll tell you, there's a very simple logic. I mean if you look at our cost structure, needle coke is one of the very large component of our total cost. Our cost of conversion is not very high. So either you keep coke, which we have already purchased, which we had already ordered in October, November, December, not knowing the slowdown will continue for so long. So given that one has already got the needle coke stocked lying at the plant, it doesn't take too much effort or too much cost to convert them into electrodes.
- On the assumption that more-and-more new electric arc furnaces are being commissioned, especially in America, as I said, another 15 million, 17 million tons are going to be commissioned between now and end of next year. We decided to keep converting the coke that we have. So in case of a sudden requirement, in case of a sudden change in the situation, the overall global situation. We don't want to be facing that situation that when the demand comes up, we are not yet ready. So we are just keeping the finished product rather than keeping the coke.
- Amol Rao:** So sir, would it be right to assume that between now and, say, the next 12 months, this inventory should be run down, gradually?
- Ravi Jhunjhunwala:** Now we are not buying, we have not bought any needle coke let's say in the last three, four months. I think our last shipment would have been more than four months ago.
- Amol Rao:** So the finished good inventory should be run down gradually over the next four quarters. That was my question.
- Ravi Jhunjhunwala:** Yes.
- Amol Rao:** And sir, I think the gentleman before me asked this question about Turkey. So what we know from reading is that Turkey imports a lot of scrap steel and manufactures a lot through the EAF route. As for your market intelligence, your trade dealings, is this capacity out for quite some time? Or do you think that this comes back on track sometime in the next five, six months?



- Manish Gulati:** No. Let me clarify this. See, there's no plant in Turkey, which has got closed. Turkey is one market, which is the quickest to respond either way. You very rightly said, they import a lot of scrap. They have all used those scrap in the electric arc furnaces. When they have -- the Turkish people the -- steel industry is the quickest to adjust to the demand of more steel. So there's no shutdown of steel company or a steel plant as such, they just decided to run at 50%, 40%. That's what they do. The moment they see the rising stock of rebars or any kind of steel they make, they quickly turn it down. So it's not -- no closure as such. They're very much there.
- Amol Rao:** They balance out the supply. That's what you are hinting at.
- Manish Gulati:** Yes.
- Amol Rao:** They don't want to flood the market?
- Manish Gulati:** Yes, true.
- Amol Rao:** And sir, I know this is very difficult for you all to answer, crystal ball gazing. But given, I mean whenever this war ends, given the amount of reconstruction that is expected, the demand for TMT bars [inaudible 0:40:53] because I'm if not mistaken the steel capacity in Ukraine is pretty much been bombed out of existence.
- Manish Gulati:** Yes.
- Amol Rao:** So I mean, where does it get met from? As for -- I mean, whatever your clients, say, it gets met from mainland Europe, Turkey and those kind of places, or they import from somewhere else?
- Manish Gulati:** I think so, see, these markets, markets like Ukraine will definitely be served by the countries like Turkey, even India, why not India. And all over the world, wherever they will have this extra TMT. But yes, huge demand will come in once the war gets over, that's correct.
- Moderator:** We have a next question from the line of Preet Malde from Centra Advisors LLP.
- Preet Malde:** I wanted to understand from my calculation on capex per ton comes around INR 6 lakhs. And I want to understand what is the target ROCE that we are aiming at?
- Manish Gulati:** Gulshan will you answer?
- Gulshan Sakhuja:** Yes. We are expecting, if we talk about the INR 1,200 crores and additional tonnage or 20,000 it comes to around \$8,000 per ton. So we are expecting that EBITDA margin from this business would more or less be will remain the same.
- Preet Malde:** And as we know, there has been no real expansion in the electrode manufacturing all over the world, and we are expanding to another 20,000 tons. So what are the peak utilizations that we are aiming at right now?
- Gulshan Sakhuja:** If you speak, we are in forerunner in that expansion and no one, other our competitor internationally and domestic has announced any capex announcement. So we are expecting that we will be able to capture this market once demand comes into the picture in the future.



**Preet Malde:** And the needle coke demand, so the needle coke is also being used for batteries. So do we see a shortage in supply of needle coke for graphite electrodes because of its usage in other things as well.

**Manish Gulati:** Needle coke is used very marginally. Sorry.

**Ravi Jhunjhunwala:** So its a very difficult question to answer. Basically, we've been talking about it for the last five, six, seven years. There are at least 10, 12, 15 different raw materials will go into the battery manufacturing. Needle coke is one of them. So, and for us, needle coke is like the main raw material.

So whenever we have seen the electrode prices going up, leading to more demand of needle coke. We have seen that the graphite industry has not suffered because the price that the graphite industry can pay for the needle coke is not what the battery producer can pay. Because he has an option to either use needle coke or replace needle coke by, let's say, 10 other raw materials that he already uses currently. So that is a simple answer, basically.

**Preet Malde:** So it will not hamper the prices for us at least?

**Ravi Jhunjhunwala:** Yes. It's very simple if needle coke prices go up the electrode prices will go up. I mean, basically, we are -- as Manish was trying to explain in one of the questions, we are looking at the spread. And what had happened three, four years ago was quite natural. But the needle coke prices went up, electrode prices went up. So it's basically the demand for electrodes.

**Preet Malde:** And I wanted to ask one more question on the new business segment of anodes. How are we going to finance this new segment? Because we see that we need an additional capex of INR 2,000 crores in tranches. So how are we financing that?

**Ravi Jhunjhunwala:** Look, for the time being, it's fully internally financed. I mean our cash flows will allow it. But obviously, we will see the cost of financing from outside, the cost of finance from our internal approvals. So it would partly be bank finance, partly our internal funds.

**Gulshan Sakhuja:** And this INR 2,000 crores is divided into two phases, Phase 1 [inaudible 0:45:58] spend INR 1,000 crores for Phase 1. And after that, we are going to spend INR 1,000 crores for Phase 2. So it depends means that earnings and the debt equity ratio, more would be from HEG side in the form of equity and through internal accruals.

**Moderator:** Thank you.

**Navin Agarwal:** Thank you very much, ladies and gentlemen. As there are no further questions, I'd now like to hand over the conference back to Ravi ji for his closing remarks.

**Ravi Jhunjhunwala:** Thank you, friends, for joining us on this call today. And just to repeat what I have said, in one or two sentences. Looking at the growth of electric arc furnace in the last 12 months and what is likely to happen in the next few years and then follow up in Europe. We are pretty confident about the optimistic note that we are talking about because at least for these 30 million, 35 million tons that we are talking about between Europe and America, we have the details, we



have the names, we have the locations of all the new EAF plants coming up. And we are fairly well equipped to meet all their demand.

And especially since there is no new capacity coming up, we are pretty confident that it may be a matter of one quarter, two quarter or three quarters, but we should be able to sell whatever we produce because we have been in those countries. We have been exporting to all these customers in the past.

We are qualified at most of these new locations, which are now establishing more-and-more steel capacities. So we are pretty reasonably confident about our being able to meet the demand wherever it comes. So with that optimistic note I'd like to thank you once again, and I look forward to talking to you after three months once again. Thank you.

**Moderator:**

Thank you. On behalf of SKP Securities Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines. Thank you.