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21st November, 2022

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Sub: Transcript of Earnings Conference Call on Q2 FY23 of HEG Limited

Dear Sir/Madam,

Please refer to our Earnings Conference Call scheduled on 17th November, 2022 intimated vide our letter dated 15th November, 2022. 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.

This is for your kind information and records.

Thanking You,

Yours faithfully,
For HEG Limited

(Vivek Chaudhary)
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“HEG Limited Q2 FY-23 Earnings Conference Call”

November 17, 2022



MANAGEMENT: **MR. RAVI JHUNJHUNWALA – CHAIRMAN, MD & CEO, HEG LIMITED**
MR. RIJU JHUNJHUNWALA – VICE CHAIRMAN, HEG LIMITED
MR. MANISH GULATI – EXECUTIVE DIRECTOR, HEG LIMITED
MR. OM PRAKASH AJMERA – GROUP CFO, HEG LIMITED
MR. GULSHAN KUMAR SAKHUJA – CFO, HEG LIMITED

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



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Moderator: Good day, ladies and gentlemen. Welcome to the HEG Limited Q2 FY23 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 '*' 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 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 along with Mr. Riju Jhunjhunwala – Vice Chairman and their colleagues Mr. Manish Gulati – Executive Director, Mr. Om Prakash Ajmera – Group CFO and Mr. Gulshan Kumar Sakhuja – CFO. We will have the opening remarks from Mr. Jhunjhunwala, followed by a Q&A session. Thank you and over to you, Raviji.

Ravi Jhunjhunwala: Thank you Navin. Good afternoon, friends and welcome to our Q2 financial results call for the current year. As you're aware the geopolitical developments resulting into an ugly war still continues after nine months with no immediate end in sight. This has resulted into changing the dynamics in most parts of the world resulting in many changes in all parts of the world, some with very serious consequences and some others with moderate consequences. The developed parts of the world like US, EU, Japan seemed to be the hardest hit leading to high inflation in some countries, high interest rate and lower demand for most of the products etc.

Obviously, steel which is where our products are used has also been hit hard in the last 6 to 9 months leading to a drop in overall production by about 8.7%. While some major steel producing countries like Japan and Western Europe had declined between 5% to 11% in the last quarter. However, our government took some proactive steps to tide over these issues and due to our focus on infrastructure spending steel production continued to increase in June-July of this year and then started declining. But still a fairly small decline compared to the rest of the world. European steel industry has been specially negatively impacted by their exorbitant gas and energy prices which are also having adverse effects on regional steel demand. In the short term the outlook for the steel industry still appears to be bearish. Steel demand is still being impacted by the fear of a global recession. Steel production is closely linked to the economic growth.

World steel production except China and Iran shows a decline of 5.8% in the first 9 months of January-September '22 compared to the same period last year. There has been a quarter-on-quarter decline of steel production of 6.6% between Q2 and Q3 calendar year 2022, again excluding China and Iran. The bright spots in the otherwise bearish outlook of steel production has been US and India where demand is still strong. As per WSA's latest short-range outlook, world steel demand is expected to drop by 2.3% in 2022, after it increased by 2.8% in 2021.



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The electrode demand which is a derivative of steel produced through electric arc furnaces, what we in India typically call mini steel also fell in July-September quarter due to pushback of orders mainly by European steel producers and slowdown of production in other countries. We continue to see lower demand of electrodes in the current and the next quarter but we continue to still run the plant at full capacity currently. Having said that I would like to emphasize that decarbonization focused all over the world is gathering steam leading to closures of many blast furnaces and replacing them with new electric arc furnaces which is a huge positive for us, for companies like ours in future. US which produces over 70% of its total fees to electric arc furnaces, new greenfield capacities to the tune of between 20 to 25 million tons have been announced. 6.5 million tons is set to start in the next 2 to 3 months, 11.5 million tons by 2024 end and the rest in the first half of 2025. Besides this EU wants to replace about 16 million tons of blast furnaces by electric arc furnace, starting from 2023 end. Although China still produces only 12% of its steel through electric arc furnaces but this has increased from 4% in the last 5 years to 3 times. They're also on the path of increasing their electric arc furnace share to about 20% as they also try to control pollution.

We feel that medium to long term growth of EAF is unquestionable which keeps us confident of the growth prospects of our industry and that's where our current expansion kicks in. About 2.5 years ago we had announced taking our capacity of existing 80,000 tons per annum to 100,000 tons by end of this year. I'm glad to say that out of 6 different processes that go into production of electrodes 4 are already commissioned the 5th one is getting commissioned in the next two weeks and the last one by early January. Once it is done our capacity will go up to 100,000 tons. Our plant with 80,000 tons capacity till now has been the largest plant under one roof in the world for a very long time and in the next few months once it reaches 100,000 a gap between our plant and the next large plant will further increase and we would start getting further economies of scale and cost advantages. Furthermore, our expansion is coinciding with the new demand of electrodes coming in from these new capacities of electric arc furnaces as I just spoke.

This quarter's performance was in line with the first quarter despite lower sales volumes due to benefits of rupee depreciation, higher profits from our several hydropower generation facilities in Madhya Pradesh and Himachal and also higher income from our hydro operations of our associate company Bhilwara Energy, both of which did well due to early onset of monsoon this year and power prices going up substantially in the first half of the current year. The needle coke procurement for the last three quarters have been flattish without any significant increase and continues to remain so. There is no shortage of needle coke in the market due to slowing down of offtake by major graphite producers. Meanwhile as some of you have seen our public announcements, we plan to diversify into making graphite anodes for lithium-ion cells which form the battery for electric vehicles. Given that it is the first such plant coming up in our country, we will see a good opportunity here over the long term. We are forming a wholly owned subsidiary of HEG for this new business and our Board has approved a budget of about Rs. 1,000 crores for manufacturing 10,000 tons of anodes in Phase 1 which should be ready by early 2025.



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We plan to invest another 1,000 crores for the second phase of 10,000 tons after the first phase is successfully implemented. At present, these cells or battery packs are all imported into India and soon there will be a huge domestic demand for graphite anode powder as cell manufacturing starts shifting to India. We see tremendous growth in this business in the next decade as India starts producing and using more and more electrical vehicles. Friends with this I will now handover the floor to our CFO, Gulshan to take you through the financial numbers and then Riju, our Vice Chairman and Manish, our ED. In between all of us will be very happy to answer any queries relating to electrodes or of the new process. Thank you and over to you Gulshan.

Gulshan Kumar Sakhuja: Good afternoon, friends. I will now briefly take you through the company's operating and financial performance for the quarter ended 30th September, 2022. For the quarter ended 30th September, 2022 HEG recorded revenue from operations of Rs. 598 crores as against Rs. 722 crores in the previous quarter and 518 crores in the corresponding quarter of the previous financial year. The revenue for the quarter saw a decrease of 17% as compared to the previous quarter while it witnessed an increase of 15% on Q-on-Q basis. The fall in this quarter is due to lower volume offtake.

During the quarter ended 30th September, 2022 our company delivered EBITDA including other income of Rs. 198 crores as against 205 crores in the previous quarter and Rs. 167 crores in the corresponding quarter of the previous financial year. The increase in employee benefit expenses over the corresponding quarter of the previous year is on account of annual increment in service incentives to employees and provisioning for profit related commissions payable to CMD and ED of the company under contractual terms of their employment.

The reason for the increase in finance cost is due to the hike in the repo rate from 4% to 5.9% by the RBI to keep the rising inflation in check. Other external benchmarks like MIBOR and T-Bill have also moved in the same direction, along with an increase in the working capital requirement in the business. Apart from the above the increase in finance cost from corresponding quarter of the previous year is on account of reduction of interest subvention from RBI from 3% to 2%. The company recorded a net profit after tax of Rs. 130 crores in the second quarter of FY23 as against 134 crores in the previous quarter and Rs. 113 crores in the corresponding quarter of the previous financial year. The extension plan is going on in full swing and we expect the extension project would be completed by December '22 and ready with commercial production by early 2023.

The company is a long-term debt free and has a treasury size of nearly 1,250 crores as on 30th September, 2022. Now we would like to address any questions or queries you have in your mind. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sonali Salgaonkar from Jeffries.



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Sonali Salgaonkar: Thank you Ravi sir for the brief, it was very informative. Few follow up questions; firstly 70% of HEG sales are exports. Could you help us with a country wise revenue breakup broadly and which countries have been instrumental in the weaker demand this quarter apart from Europe?

Manish Gulati: I would say Sonali, revenue break up instead let me just do a tentative volume breakup rather than the revenue breakup.

Sonali Salgaonkar: Yes, that would be helpful.

Manish Gulati: About let's say 20% is America, about 18%-20% is Southeast Asia, about 27% is Middle East, something like that. These are the very broad figures I am giving, so actually very well diversified as you can see. So, our share in the major steel producing regions of the world which are the Americas and the Europe and the Southeast Asia and Middle East. These are the four areas and all these major countries we have a presence. So, tentatively if you take just a 20% share plus minus 2%-3% each and every area, Europe will be low this year. Otherwise, it was about 10% is what is going to European nations, I am talking about total. Again, one third of our product is sold in India. If you add all this up we will reach 100%.

Sonali Salgaonkar: I missed the number you gave for Europe.

Manish Gulati: 10%. We used to be there. Now it's probably going to slip to 7% to 8% of the total volumes.

Sonali Salgaonkar: What was our capacity utilization in Q2 and currently because you did mention that your plants are operating at a healthy operating utilization and also what is the inventory position in the system for the electrodes?

Manish Gulati: We continue to run at a (+90) level and that's what we have been doing for last six quarter we have not slowed down yet. As Chairman said we have no intention to slow down at least for this quarter. Our sales till April to June quarter, we sold as much as we make again in the 90s, early 90s. That's what our sales utilization was. But for July to September, it's in early 70s and October to December as we see maybe it'll be 60s, mid 60s or something. So, we continue to produce at full capacity but only from July to September quarter, we have sold less compared to our production and the October to December quarter also seems to be in the same way.

Sonali Salgaonkar: And the inventory position?

Manish Gulati: Inventory position is still fine. It's not unmanageable per se. Let's say we can say a month and a half worth of inventory which is quite normal. One month is considered very normal in our operations where we make so many sizes, so many grades, so put together if we have a month worth of inventory that industry considers right, so we have one and a half months.



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Sonali Salgaonkar: About the pricing of electrodes, what has been the trend in pricing that we saw in Q2 because in the first half we did see some price increases panning out in electrodes like in last year? What's the pricing trend in Q2 and also what do you expect to be the pricing trend in H2?

Manish Gulati: Q2 pricing is virtually almost the same, I would say. Very insignificant increase between Q2 and Q1. You can consider they were just exactly the same. But in Q3 in which we are in, there is probably going to be our average price might be about 3% to 4% down. Jan to March still looking at it, if things continue to go like that maybe that quarter also remains under pressure or if things turn around, it can revert to the current price level we saw in the July to September quarter. So, that remains to be seen because we are also booking very gradually. We still are booking for Jan to March quarter.

Sonali Salgaonkar: For our new products that's this lithium-ion product that we are entering, could you help us with the overall TAM, that's the total addressable market which you foresee would be panning out in India. Correct me if I'm wrong but your revenues will start accruing from FY26 onwards, is that correct?

Manish Gulati: I'll have this question better answered by Mr. Riju Jhunjhunwala as he is leading this project, so it's better that he answers it for you.

Sonali Salgaonkar: Sure. Riju, it would help if you could give us the year wise breakup of CAPEX at least for the Phase 1 of Rs. 10 billion which is set out for the next 3 years. Thank you.

Riju Jhunjhunwala: You asked about the overall market size. Let's say by 2025 according to all conservative estimates, the overall battery demand, the cell demand for India would be 50-gigawatt hour. This is what all the companies have signed up in the PLI schemes etc. also which would mean on a very pessimistic side annual graphite anode demand of 50,000 tons just for the domestic market. If you want to understand more in detail this means around 10 lakh EV cars or let's say 1 lakh buses. Our total size that we are putting up in phase one is 10,000 tons. You're talking about a market size very conservatively of 50,000 tons in Phase 1. Our total investment is around Rs. 1000 crores which includes working capital etc. This would be in stages between let's say March of 2023 to March of 2025, so spread over 2 years and we hope to start commercial production latest by 1st April, 2025.

Sonali Salgaonkar: Could you help us understand the needle coke pricing trend right now? I mean if you are expecting the electrode pricing to be slightly under pressure, is it safe to assume that even needle coke could stabilize going forward?

Ravi Jhunjhunwala: Needle coke has stabilized and there has not been any change in the price of needle coke. As I said availability is not an issue. Before you ask that question let me clarify. In our case the conversion costs being fairly low, our fixed costs are probably the lowest amongst all the graphite producers. The total cost of converting needle coke to finished electrode is not very



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significant. As we see especially America, America is still going very strong on steel. As Manish just responded to your question, America also happens to be our single largest location for exports after India. It doesn't take too much to keep the inventory of finished stock rather than keeping the inventory of needle coke per se. We have taken a very conscious decision that this is a small short blip in the market. We see this market turning around maybe in one quarter, maybe in two quarters. It doesn't tie up a lot of your money if you keep needle coke or you convert the needle coke into electrode. For any short term blip we don't want to take the risk of losing the market and losing the market share. That's the only reason we keep using at 90% even if we are not selling all that product.

Sonali Salgaonkar: Just one last question from my side probably a clarification of a number which you gave in your opening remarks; for the decarbonization trend you mentioned that 20 to 25 million tons of EAF capacity, greenfield capacity it's likely in the US, am I correct and by which year are we expecting?

Ravi Jhununwala: We gave some break-up about 6.5 is already starting in the next 3 to 4 months. We have the names, we have the locations, we have the capacities of each one of these about 25 million tons overall that I'm speaking about, so 6.5 to 7 million tons is starting in the next 3 to 4 months. By middle of 2023 or let's say by end of 2023, we expect another 10 to 12 million tons and the rest from early 2025 onwards. It doesn't take too long to put up an electric arc furnace, very much less compared to a blast furnace. This 20 to 25 is only America. It's only America because America produces more than 70% of its steel through electric arc furnace.

Moderator: The next question is from the line of Nikhil Saboo from SKP Securities.

Nikhil Saboo: Recently GrafTech has to close down their Mexico plant which was having an annual production capacity of 60,000 or representing 30% of the total GrafTech production. Plus, it is the only site which is also producing pinch which is being utilized all the GrafTech graphite electrode production. In the recent con call they have highlighted that they are trying to mitigate this missed production by shifting it to either at St. Mary facility or at one of the European facilities but which will take some time. Plus, they have given the guidance of a lower Q4 and if the Mexico plant remains closed then they are saying that 50% of their sales volume will get impacted in H1 calendar '23. In such a scenario if the Mexico plant remains closed for at least for next 3-6 months, how do you foresee the graphite electrode supply shaping up?

Ravi Jhununwala: It is one of the three largest plants in the world. I mean ours if we call it the largest with 80,000 tons going to 100,000. There's another plant in US of Showa Denko which is 70,000 tons. This plant of GrafTech in Mexico is the third one with 60,000 tons. As you rightly said the nipples which is a very critical product with electrode, one electrode goes with one nipple. It's basically just 4% weight of the total electrode but without that nipple you can't join the next electrode. Electrode being consumable every couple of hours, every 6 hours, 8 hours as you consume one electrode you keep adding one more piece of electrode and that is where you need the pins or



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nipples as you call. Typically, both these large companies who have more than one location for producing electrode. They have this tendency of concentrating their nipple production all at one place and then they air freight the nipples to their other locations to sell electrodes and nipples together. So, unfortunately, in this case Mexico is the location where 100% of nipples of GrafTech's entire 1,80,000 tons capacity were produced in Mexico. That is the plant where there have been problems for about 2 months now. Whatever we know, we only know from the public discourse and a lot of papers that they have disclosed in the public domain. Basically, we don't have any more information than what you have. But the fact is that this plant has been closed for 2 months. They have themselves said that they don't see an early resolution. They are themselves saying that in the current quarter which is the October-December quarter their sales will go down by about 25% to 30%. Going forward as their nipple inventory keeps coming down and down because they're not producing any more nipples and without the nipples, electrodes cannot be sold, it cannot be used. Going forward if this problem continues for let's say the next even 6 months, then it is a problem. It is a problem for the whole industry then whatever tonnage is available with GrafTech will get hampered and they have clearly said that in their recent reporting to the SEC.

Nikhil Saboo:

Can we expect windfall volume coming up in first half of next financial year? Since we are already producing at around 90% utilization levels where our sales volume would be somewhere close to 65%-70%? Can we expect to liquidate our excess inventory if there's any windfall gain coming because of this?

Ravi Jhunjhunwala:

We will be of course if a large part of GrafTech sales comes down because of nipples then obviously everybody else, we are not the only ones whoever else is in the production of electrode that's the only option. We have already started seeing some movement there as Manish said America happens to be one of our largest export market and the Mexican plant was majorly supplying to US. GrafTech doesn't have an operating facility for electrodes in US. So, most of the US sales were coming from Mexico, which is very close to them, which is close to, which is next door to US. We have already started seeing that kind of a movement. I mean the inquiries and the pace of negotiation and the new orders which are trickling in now. We are getting a feel that more and more demand is getting let's say distributed to the remaining two-three producers of electrodes.

Moderator:

The next question is from the line of Bhavin from Enam Holdings.

Bhavin:

First on the graphite anode, new project what you're planning. Can you give some economics on what kind of a product this NSR is, what's the raw material use, what kind of EBITDA margins this product can generate. What are the critical raw materials would be for, what would be the payback you are targeting for 1,000 crores, CAPEX you're planning for first 10,000 tons?

Riju Jhunjhunwala:

On the CAPEX we spoke about 1,000 crores CAPEX. We're expecting a turnover to CAPEX ratio of approximately 1:1 The raw material and that's why we have ventured into this particular



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segment is that the raw material that we use for our graphite electrode let's say the needle coke and the Indian coke that we use, it will be more or less the same for this particular venture as well. So, as raw material price would really kind of depend on the prices of that day. The selling price of course this is a highly value-added product which is not sold in tons, it is sold in kgs etc. You're looking at a much higher per unit realization of more than double of what you are currently seeing in our graphite electrode business. Basically, the processes are quite similar and that is why in terms of the technology etc. we feel confident that we will be able to do a good job of it and again the payback period etc. what you're looking at, if everything works out the way we are seeing it should be between 5 to 6 years.

Bhavin: Just one question here. Since you said that the NSR is almost double and more or less the processes, raw material is the same. Can we assume that this business will have much higher EBITDA margins than your current electrodes business and obviously.....

Riju Jhunjunwala: Our electrodes business as you know well it fluctuates between year-and-year but if you take the current margins that we have in our electrode business the margins in the anode business should be significantly higher than that.

Bhavin: Other question is on the existing electrodes business. You mentioned some there is some 6.5 million, you mentioned starting in the US in next 4 or 5 months. If you have the list, can you name two-three players who are expanding this 6.5 million electric arc furnace in US and I think you said by middle of 2023 another 10 odd million. Can we get some large CAPEX which is happening in US so easy to track for us?

Ravi Jhunjunwala: I can send it to you separately but you will find most of the known large steel companies in US led by Nucor. I'm sure you've heard of Nucor.

Bhavin: Yes, so Nucor US Steel and those are the most of the guys who are....

Ravi Jhunjunwala: No, US Steel is primarily blast furnace. Nucor is 100% electric arc furnace, then the second large producer of electric arc furnace steel in the US is a company called Gerdau originally a Brazilian company which was acquired by Americans, then there is a company called Steel Dynamics. There are several others. There are at least eight to ten large EAF steel producers in US who are adding these capacities. We can send you the details separately.

Bhavin: We are adding this capacity...

Manish Gulati: Because it is public information and if it really interests you, I can just take the names quickly. One is the Steel Dynamics at Corpus, the second one is North Star at Bluescope, the third one is Nucor at Gallatin, fourth one is again a Nucor plant in Brandenburg and then there's a group called CMC that's in Arizona, there are two plants, One is ArcelorMittal, they're coming with



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the electric arc furnace, then there's an Algoma in Canada and USG All this is public information and you can always ask us off line, we will provide you no problem at all.

- Bhavin:** These are the new capacities and they're not replacing the existing either electric arc furnace?
- Manish Gulati:** No these are the new electric arc furnaces. There are anyway very few blast furnaces in North America. As Chairman said, they already have 70% electric arc furnace share they have. The names which we are taking are for the newly announced EAF capacities.
- Ravi Jhunjhunwala:** The replacement is occurring more than. these are additional capacities. These are additional capacities.
- Bhavin:** The existing CAPEX I think what your ongoing CAPEX from 80,000 to 1 lakh. If I remember this was a 1,200 crores CAPEX. If I see your CWIP looks like 853. I think another 400 crores is the pending number on this expansion which should be done by March?
- Manish Gulati:** 200 by March. Actually, there were another two shops which you are not taking in there, actually put together we have spent 1,000 crores. There were some two shops which were came before the expansion with they will also be of course a part of that same.
- Bhavin:** Pending is 200 only now you are saying.
- Manish Gulati:** 200 crores yes.
- Bhavin:** And there are no other projects so the 200 and your running capacity would be 1 lakh probably by Feb-March?
- Riju Jhunjhunwala:** Yes.
- Moderator:** The next question is from the line of Amol Rao from Kitara Capital.
- Amol Rao:** I remember that we were talking about tying up for our power requirements especially now that we are going to be operating another 20,000 tons. We're talking to I think the Madhya Pradesh State Electricity Board for a good power purchase agreement on good terms. Is there some change in that plan, has that been done? Anything, any comments on that?
- Ravi Jhunjhunwala:** No, we're not getting any power from Himachal. We have our associate company which produces about 300 MW hydro in Himachal Pradesh but that is all sold in the power exchange on a daily basis. We don't get any power from Himachal. It's not practical in India to get power from Himachal to Madhya Pradesh. The transmission charges and everything is so high that it doesn't make sense. We are buying 100% from the Madhya Pradesh Electricity Board and more so 100% because in the last 12 months-18 months given the cost of coal and the issues related



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with carbon emissions of coal and all that. We have about 65 MW of captive coal generation at the same location as graphite so which is not operating for the last 2-2.5 years now because we are able to get everything that we need from the electricity board which is much cheaper than producing your own power today.

- Amol Rao:** Will this arrangement also continue for the additional 20,000 tons?
- Ravi Jhunjhunwala:** Yes, we have that agreement.
- Amol Rao:** About the new CAPEX. This is going to be again at the Mandideep facility only that we operate currently?
- Ravi Jhunjhunwala:** You are talking of the graphite expansion?
- Amol Rao:** Yes, the anode...
- Ravi Jhunjhunwala:** No, anode is not coming in Mandideep. We are still to decide the location. We are weighing two or three options within Madya Pradesh.
- Amol Rao:** So, within Madhya Pradesh itself?
- Ravi Jhunjhunwala:** It will be Madhya Pradesh but it has nothing to do with the existing graphite plant.
- Moderator:** The next question is from the line of Yash Dantewadia from Dante Equity.
- Yash Dantewadia:** Your existing capacity is 80,000 and you've added 20,000 more. By when do you see this 20,000-capacity getting utilized by let's say 90%-95%. How much time do you think it will take you to reach there?
- Ravi Jhunjhunwala:** You see as I explained earlier there are six different processes into the production of electrodes. There are six shops or six processes which are being newly built for these 20,000 tons out of which four have already started. The fifth one is starting in the next 2-3 weeks and the last one will start in early January. And the total cycle for producing electrodes is between 2 to 3 months, 2 to 4 months let's say. So, in the real sense the entire 20,000 tons will be available let's say from April-May. We'll start the sixth process, the last process in January but it will take us between 3 to 4 months for us to produce finished product out of this because the process itself is anywhere between 3 to 4 months.
- Yash Dantewadia:** And when do you see this reaching to your, what's your existing capacity utilization for your 80,000 capacity?
- Ravi Jhunjhunwala:** As Manish said I mean...



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Manish Gulati: We are running at 90s as we said in the beginning we are running at 92%-93%-94% level for all these quarters and continue to do so and same from this quarter onward is depressed.

Yash Dantewadia: This 20,000 that's coming up which will take another 6 months to get on full-fledged, how long do you think this will take to reach 90% capacity utilization?

Manish Gulati: It depends upon global conditions because steel is as soon as the steel production in the world gets back on track and we'll be soon seeing this capacity absorbed. But internally what we talk about between 1 to 2 years we should be able to within by 2023 end or 2024 we should be at that 90% level because the new demand of electrodes will come in, in the world with new electric arc furnaces so we expect to get back at the 90% level within 1 to 2 years. That is 2023 and 2024.

Moderator: The next question is from the line of Pratim Roy from B&K Securities.

Pratim Roy: Current year just you mentioned that you are working with the 90% capacity utilization so what is the volume number means how much you have sold in the market and what is your NSR if you can give some light on that? You did mention that 2Q and 1Q NSR is almost in line with **(Inaudible)**. So, I just want to articulate the number how much is the NSR currently?

Manish Gulati: See if I have heard you clearly as I didn't hear you clearly but I think what you are asking is how much we sold in this quarter of Q2. So, that is an early 70s and for the October to December that's probably be in mid-60s because we are already in the middle of November so we can see where we are going and for the next quarter, we now have started booking for Jan to March quarter so that remains to be seen what level we can achieve.

Pratim Roy: What is the current realization for the combined electrode that you are enjoying right now?

Manish Gulati: I cannot give a specific figure on a price but it is very easy for you to calculate because all we do here is electrodes if you have the capacity utilization which I already said and we have the revenue and just have to divide it but don't let me do that for you.

Moderator: The next question is from the line of Sanjay Jain, an individual investor.

Sanjay Jain: I wanted to get little bit more sense on this graphite anode that the CAPEX that you have announced about 1,000 crores. Where are we getting this technology from and what could be the, could you give some little bit more on the process? Like want to get some sense on what kind of conversion cost would be and what parameters would be driving those conversion costs?

Riju Jhunjhunwala: Technology wise today let's say 90%-95% of the entire anode production in the world is in China and process wise this comprises of four-five different processes like crushing, grinding, coating the raw material with pitch and then the main process in this is the graphitizing of the raw material in which basically where we see as HEG we have a 50-year experience in the main



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process which is the graphitizing of the raw material. Technology wise we are pretty confident that a lot of technology is inbuilt in what we have within HEG. Some bit of technology we will be outsourcing from some European companies and Chinese companies and process itself like I said it's like you have five or six different processes in electrodes you have five or six different processes in this but the raw material for both the products is the same.

Sanjay Jain: I was asking about what kind of process is there in this making up of graphite anodes? You were explaining there are multiple processes including graphitization and then we lost the line.

Riju Jhunhunwala: That's what I was explaining that the four or five processes and one of the major processes is the graphitization in which the process is quite similar to what we have in the electrode space which is where our expertise comes in. Here the final product is basically crushed graphite powder which is very small in size and made according to the customers' requirements in different shapes or in different kind of qualities. Really in terms of the technology and processes we are very confident that we will be able to do a good job in this particular product and seeing the kind of demand that's going to be there in the next 10 years, the potential to keep adding capacity in second or third phases is tremendous.

Sanjay Jain: Another thing that I wanted to understand is what kind of yields are there, business like if you take what are the raw material like needle coke you mentioned and also talked about pitch so for making 1 kg of finished product what kind of, how much, quantities of raw material is needed?

Riju Jhunhunwala: You can talk about it. It's something very similar to graphite electrode which will be around 1.2-1.3 kgs for the finished raw material. 1.2 to 1.3 kgs of this thing raw material to the finished product. The raw material would be a mix of depending on quality, a mix of Indian coke and the imported coke that you have, needle coke. But the needle coke would be very limited in its application. Mostly our entire requirement should be met out of the Indian coke itself.

Sanjay Jain: You're saying that there is less requirement of needle coke, more requirement of Indian coke?

Riju Jhunhunwala: Correct.

Sanjay Jain: Overall raw material cost could be actually lower per ton of finished product?

Riju Jhunhunwala: Obviously the raw material cost as a percentage of selling price will be significantly lower but even on a per kg basis it should be overall lower because the raw material requirement is not what we have for our UHP electrodes. It's more or less what we have for the other electrodes that we have.

Sanjay Jain: Now since the raw material is cheaper on per ton basis then why is the price of the finished product twice as compared to graphite electrodes? Is there too much of processing cost involved in this or is it because of the lower throughput per amount of CAPEX that we are incurring?



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Riju Jhunjunwala: It's a mix of all. It's a mix of demand supply, it's a mix of technology and obviously it's a mix of the lower throughput. If you're talking about a 1:1 capital to turnover ratio obviously we will need to have a very high EBITDA over here in order to be financially very viable. But even today what we are seeing in the last 5-7 years the selling prices are stable for this particular product and the processing cost is very similar to what we have for the graphite electrodes and going forward also this is not expected to come down drastically because of the simple fact that the requirement for anode powder is going to go up very substantially not just in India but across the world. That demand supply mismatch will always be there and then you have this 2-year lag time of putting up any new capacities.

Sanjay Jain: Basically, you're saying that raw material cost per ton of finished product will be lower, conversion cost would be similar?

Riju Jhunjunwala: Correct.

Sanjay Jain: And I missed I think you mentioned in earlier discussion that what will be the tonnage out of this 1,000 crores CAPEX.

Riju Jhunjunwala: We are talking about the 10,000 tons per year plant which would give us approximately a 1:1 capital I mean investment to turnover ratio. In the first phase we are going for 10,000 tons. In the second phase we'll add another line of 10,000 tons.

Moderator: Thank you.

Navin Agrawal: Thank you very much. As there are no further questions, I would like to hand over the conference to Mr. Riju Jhunjunwala for the closing remarks. Over to you Riju.

Riju Jhunjunwala: Manish, I think the closing remarks would be directed towards you, I guess.

Manish Gulati: Let me say friends thank you very much for attending our call. We remain very optimistic for our business electrodes and specially with the sun rise thing anodes coming up, we see a bright future for HEG not only in our bread-and-butter business of graphite electrode but also for this new product called anodes where we are positioning ourselves as a Green Energy company. We look forward to speaking to you after the next quarter results are out. Thank you so much and take care.

Navin Agrawal: Thank you Manish ji. Thank you Riju.

Moderator: Thank you. Ladies and gentleman, on behalf of SKP Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.