

Q1 - FY16 Investor Update Presentation

HEG Limited – Profile



HEG Limited is a leading graphite electrode manufacturer & exporter Globally.

HEG produces two grades of graphite electrodes - Ultra High Power (UHP) & High Power (HP) - used in manufacturing steel through the Electric Arc Furnace (EAF) route.

Exports approximately 80% of its production to about 30 countries around the world

Diversified customer portfolio - ArcelorMittal, Nucor, POSCO, Emirate Steel Ind, Dongkuk Steel, Severstal, SAIL, Tata Steel, Jindal Group etc.

Graphite electrodes manufacturing plant (capacity of 80,000 tons per annum) located at Mandideep in Madhya Pradesh - is the largest single-site facility in the world

Captive power generation capacity of around 76.5 mw (2 thermal power plants & 1 hydro power plant)

Global Steel Industry



- World crude steel production reached 813 million tons in H1 2015, declining by 2.0% as compared to 830 million ton in H1 2014.
- The EU grew by insignificant 0.5% in H1 2015, whereas Asia without China and USA declined by 2.1% and 8.6% respectively. CIS dropped by 5.9%. Steel production growth was zero in South America i.e. remained exactly at the same level as H1 2014.
- Middle east has registered a moderate growth of 2.9% in the H1 2015 vis a vis same period last year.
- China's crude steel production stood at 410 million tons in H1 2015, a decrease of 1.3% over H1 2014.
- World excluding China produced 403 million tons in H1 2015, declining by 2.9% over H1 2014.



Graphite Electrodes Market & EAF

- Graphite electrodes find their biggest industrial use in Electric Arc Furnace (EAF) used in steel plants to melt steel scrap.
- World EAF steel production declined by 4.6% as compared in in H1 2015 vis-à-vis H1 2014.
- There has been a significant decline in some of the major EAF steel producing countries in H1 2015 vs H1 2014. Drop in USA EAF Steel is approximately 9 %, in South Korea the drop is 18%, Brazil EAF steel declined 16%, Turkey steel declined by 12%, Japan were EAF steel drop 6% and Germany EAF steel declined 5%.
- Graphite Electrode Industry is passing through challenging environment due to negative growth of Steel industry and China aggressively exporting 100 million tonnes to all parts of the world .

Financial Snapshot

in Rs. Crore (except EPS)

	FY 15	Q1 FY16	Q4 FY15	Q1FY15
Net Operating Income	1236.91	249.27	289.36	345.90
EBITDA*	196.78	25.15	43.85	59.98
EBITDA Margin	15.91%	10.09%	15.15%	17.34%
EBIT	121.43	6.28	25.86	40.63
EBIT Margin	9.82%	2.5%	8.94%	11.75%
PAT	39.0	(10.55)	4.01	18.94
PAT Margin	3.15%	(4.23%)	1.39%	5.48%
EPS	9.76	(2.64)	1.00	4.74

* EBITDA includes Other Income

Segmental Performance – Graphite Electrodes

In Rs. Crore

	FY 15	Q1 FY16	Q4 FY15	Q1 FY15
Net Sales	1213.28	247.73	282.97	341.20
Export (% of sales)	78.2%	65.8%	80.64	82.55
EBITDA Margin	8.7%	2.2%	7.3%	9.8%
EBIT Margin	2.9%	(4.2%)	3.4%	5.2%
Capital Employed	974.50	927.80	974.50	914.85

- Capacity utilisation at around 60% during the quarter.
- Graphite electrode volume and prices continue to be under pressure. However, we are seeing signs of shoring up of domestic demand, with the imposition of anti-dumping duty on Chinese imports into the country.
- High cost Inventory have affected margins adversely. Current year purchases of Imported needle coke, tied up at significantly lower prices than previous year.

Segmental Performance – Power



in Rs. Crore

	FY 15	Q1 FY16	Q4 FY15	Q1 FY15
Net Sales	228.07	46.73	54.84	56.14
EBITDA Margin	43.7%	43.8%	34.0%	45.2%
EBIT Margin	37.6%	35.7%	34.8%	38.1%
Capital Employed	174.0	170.54	174.0	183.23

- Lower generation (volume) in Thermal facility necessitated by reduced graphite requirement.
- Tawa hydro plant did not operate in the first quarter.
- Thermal Margins have started improving with the increased availability of linkage coal and reduced dependence on high priced market coal.

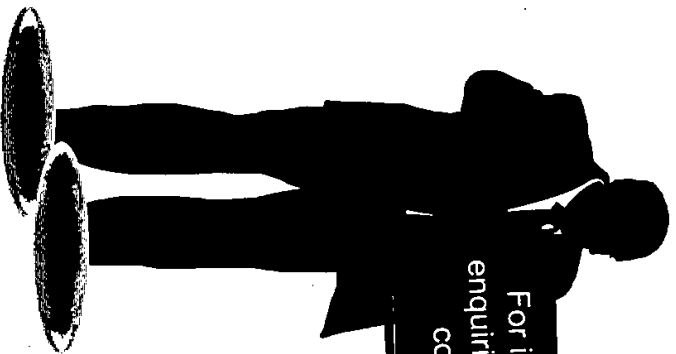
Future Outlook

- ↓ Steep fall in international prices of Iron ore and Coke vis a vis Scrap, has tilted the fortunes in favour of Blast furnaces in past 2 years. This is reflected in the weakening demand trend in the EAF segment.
- ↓ China exporting cheap blast furnace steel, affecting EAF industry, world wide.
- ↓ Notification of anti – dumping duty on import of Chinese electrodes into India effective Feb 15, to help the company in increasing domestic sales.
- ↓ With crude stabilizing at current levels, cost of major input material is expected to stabilize at lower levels.
- ↓ Improvised availability of linkage coal, is expected to ease cost pressure in the power segment.



Thank You

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