



LNJ Bhilwara Group Company



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HEG/SECTT/2024

3rd June, 2024

BSE Limited P J Towers Dalal Street MUMBAI - 400 001. Scrip Code : 509631	National Stock Exchange of India Limited Exchange Plaza, 5th Floor Plot No.C/1, G Block, Bandra - Kurla Complex Bandra (E), MUMBAI - 400 051. Scrip Code : HEG
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Sub: Transcript of Earnings Conference Call on Q4&FY24 of HEG Limited

Dear Sir/Madam,

Please refer to our Earnings Conference Call scheduled on 29th May, 2024 intimated vide our letter dated 24th May, 2024. Please find enclosed the transcript of the said Earnings Conference Call. The said transcript be read with the clarification given vide our earlier letter dated 29th May, 2024 intimating the Audio recording of the captioned Earnings Conference Call.

The said transcript is also available under the Investors Section of the website of the Company i.e www.hegltd.com.

This is for your kind information and records.

Thanking You,

Yours faithfully,
For **HEG Limited**

(Vivek Chaudhary)
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“HEG Limited
Q4 FY '24 & FY '24 Earnings Conference Call”
May 29, 2024



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
MR. PUNEET ANAND – CHIEF STRATEGY OFFICER – HEG LIMITED

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



Moderator:

Ladies and gentlemen, good day and welcome to the HEG Limited Q4 FY '24 and FY '24 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 presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touch-tone 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; Mr. Gulshan Kumar Sakhuja, CFO; and Mr. Puneet Anand, CSO. We'll have the opening remarks from Mr. Jhunjhunwala followed by a Q&A session.

Thank you and over to you, Raviji.

Ravi Jhunjhunwala:

Thank you, Navin. And friends, good afternoon and welcome to our financial results conference call for the fourth quarter fiscal year '23-'24 and also the full year '23-'24. As per World Steel Association's recent short-range outlook, global steel demand is set to rebound with an increase of about 1.7% in 2024 reaching about 1,795 million tons and a further growth of 1.25% in 2025, reaching about 1,815 million tons. This is in contrast to the negative growth of 1.1% in 2023, which totaled to about 1,763 million tons.

In China, steel demand this year is expected to remain at the same level as 2023, while for 2025, they expect a 1% decline due to expected decline in demand from real estate. Outside of China and rest of the world, steel demand is projected to grow faster by 3.5% annually in 2024 and also 2025. In that, India is a key driver with an impressive 8% growth expected in steel demand, spurred by significant infrastructure investments. By 2025, Indian steel demand is expected to be nearly 70 million tons, higher compared to 2020.

Other emerging markets, particularly the Middle East and ASEAN regions, are expected to see accelerated steel demand growth after the slowdown in the recent past. In the developed world, a gradual recovery is anticipated with steel demand growth of 1.3% in 2024 and 2.7% in 2025. The EU, despite significant challenges, is expected to see a meaningful recovery in steel demand with a forecasted growth of about 5.3% by calendar year 2025. U.S. demand is also expected to grow at 1.8% in 2024 and by another 2% in 2025 due to robust investment activity and housing market recovery.

Coming to our Q4 '24 and full-year financial year '23-'24 performance, as you can see from our results, electrode pricing remained under pressure. Our expansion from 80,000 tons to 100,000 tons is now fully complete and all the new facilities are running smoothly. With this, HEG now runs the largest graphite electrode plant under one roof in the Western world.



We declared a full start of our expansion in November '23. However, due to our long production cycle, the additional capacity came into effect in the last quarter of financial year '24. During first 3 quarters of financial year '24, while our capacity was 85% on the basis of 80,000 tons capacity. And for the last quarter '24, it was 75% on the basis of 100,000-ton capacity.

The needle coke prices kept correcting through the past year due to difficult market conditions. And due to long production cycle in our product, there is always a lag time between needle coke procurement and sales of finished electrodes. Our finished goods working process and raw material inventory levels are now normal and we do not have any inventory overhang.

We hope to see marginal improvement in steel production towards second half of 2024, which should result in increase in demand of electrodes. The positive for our industry is that the decarbonization has now become an irreversible process with more and more electric arc furnaces being announced every month. Till date, as per our information, more than 90 million tons of greenfield capacities have already been announced and we keep seeing such announcements regularly.

Out of this, about 9 million tons is already in operation and another 30 million tons is expected to be in operations between now and end of 2025. Some of the well-known international consultants like BCG and one of the largest companies in the world, which manufactures electric arc furnaces and other related equipment, a company called SMS from Germany, have recently come out with their reports confirming these projections in the -- which are now in public domain. This gives us confidence to project that the demand of our products is set to increase sharply over the years.

As we have said in our earlier calls, we expect graphite demand to increase gradually by around 150,000 to 200,000 tons by 2033 -- 2030, which is a significant increase over current demand of about 500,000 to 550,000 tons, excluding China. Other than HEG, no new capacity has yet been announced in the Western world. It takes at least 4 to 5 years to build a new greenfield capacity and about 2 to 3 years to expand an existing brownfield plant and we are well placed to take a meaningful share of this increasing world demand -- world market for our products.

You are aware that HEG has been exporting more than 2/3 of its production to some 30-plus countries for a very long time. And we have a very diverse and established customer base and we are working hard not only to get a larger piece of their requirement but we also keep adding new customers regularly in most of the countries we are exporting to.

In this backdrop, our expanded capacity of 20,000 tons per annum has come at a good time when the electrode market is likely to expand at a fast pace all around the world. Again, as you must have seen from public records in the entire field of graphite electrodes between 5, 6 companies in the world, our capacity utilization in the last 6, 7, 8 quarters has always been the highest.

Friends, with this, I would now ask Riju and Puneet to take over and explain to you in details about the recent restructuring and demerger announcement that we made last week. So over to Riju and Puneet?

Riju Jhunjunwala:

Puneet, if you can just go through the document. Thank you.



Puneet Anand:

Sure. Good afternoon, everyone. As you may have seen, we have announced the restructuring of HEG. We plan to demerge HEG into 2 new companies, HEG Graphite Limited and HEG Greentech Limited. We know there might be questions, so let us explain why we are making this deal. HEG currently has diversified businesses, including HEG Graphite business, 49% in Bhilwara Energy, the power company and 100% subsidiary of TACC Limited.

The Bhilwara Energy Limited has the following assets, 14 megawatts of the wind power, 51% of the Malana Power Company Limited. It's a joint venture between StatKraft and the promoters, which owns 86 megawatts of hydro assets in Himachal Pradesh. Malana Power also holds investment in wholly-owned subsidiary, which is AD Hydro Limited, which owns 192 megawatts of hydro assets in Himachal Pradesh. Also, 74% of RePlus is owned by BEL, which has the battery energy solutions. It already has 1-gigawatt hour plant in Pune and it will be expanding to 5-gigawatt plant by end of 2025.

These business have different growth strategies, risk profiles and investor base compared to our graphite business. By creating 2 separate companies, we can unlock shareholder value and allow each business to focus on its core strength. The rationale behind the structuring is to unleash business potential, demonstrating the true value of our businesses. providing investors with a clear focus, offering distinct access to various lines of businesses, sharpening the focus on each business and increasing the shareholder value.

Simplifying the future capital infusion, circulating future capital investments for both HEG Graphite Limited and HEG Greentech Limited independent. Concentrating on core competencies, prioritizing our core business strength, establishing an independent brand entity, building specific core competence of new businesses, enhancing self-reliance in the TACC business. And lastly, creating a platform for future merger and acquisition for HEG Graphite business and HEG Greentech business.

As a shareholder, you won't lose anything. For every share of HEG you currently hold, you will be receiving 1 share in both new companies. This process will take around 15 to 18 months as it requires approvals from shareholders, lenders, creditors, NCLT and ROC. HEG Graphite Limited will retain our graphite business and HEG Greentech Limited will hold hydro, wind through merged BEL, energy storage solution through RePlus, advanced carbon business through TACC and other opportunities which the management is currently evaluating such as pump hydro and battery recycling.

A new age HEG Greentech Limited will focus on green technologies. This move is expected to be highly beneficial for all the shareholders. By splitting into 2 end companies, we create a clear strategic focus on each. HEG Graphite will house the world's largest single graphite plant and its associated profits, while HEG Greentech will focus on green energy solutions. This split should enhance value of shareholders.

In conclusion, this demerger followed by merger allow us to pursue focused growth strategies and maximizing value for our shareholders. Both companies will be more agile and competitive, each with a sharper strategic focus. Shareholders will benefit from owning shares of both entities with significant potential of long-term value creation. We believe this restructuring is the right



decision for our company, our employees and our shareholders. We are excited about the future possibility of both business and look forward to share this journey with you. Thank you for your continued support.

In conclusion, our fourth quarter and full -- our full year '23-'24 results have been satisfactory given the tough market condition. We have done better than most of our industry peers in all aspects. The next 2, 3 quarters may see margins remaining under some pressure but we are hoping that the demand will come back sometime in second half of 2024 onwards and we're now fully equipped to take advantage of our expanded capacity. We have all the technology capabilities, operational efficiencies and market reach to take our company forward and to succeed and thrive in all emerging situations and to create long-term value for our shareholders.

I will now pass the floor to our CFO, Gulshan, who will take us through the financial figures. Following that, our -- Riju and our -- and Raviji will be entitled in addressing queries of the shareholders individually.

Gulshan Kumar Sakhuja: Thanks, Puneet. Good afternoon, friends. I will now briefly take you through the company's operating and financial performance for the year ended 31st March 2024. For the year-ended 31st March 2024, HEG recorded revenue from operations of INR2,395 crores as against INR2,467 crores in the previous financial year. The revenue for the fourth quarter of FY 2024 was INR547 crores as against INR617 crores in the corresponding quarter of the previous year.

During the year-ended 31st March 2024, the company delivered EBITDA of INR526 crores as against INR729 crores in the previous financial year. The company on a stand-alone basis recorded a net profit after tax of INR232 crores in FY '24 as against INR456 crores in the previous financial year.

And on a consolidated basis, the net profit after tax is INR312 crores in FY '24 as against INR532 crores in FY '23. The company is long-term debt-free and has a revenue of approximately INR980 crores as on 31st March 2024. The Board of Directors have recommended a 225% of final dividend, that is through INR22.50 per equity share of the face value of INR10 each for the financial year 2024 subject to the approval of the shareholders at the ensuing AGM.

To take up more questions from the participants, the detailed presentations have 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 you, Navin.

Moderator: First question is from the line of Deep Mehta from Bank of India Mutual Fund.

Deep Mehta: Couple of questions. First question is regarding our graphite electrode business. I would like to understand the supply-demand scenario of graphite electrode business. From what we have read, it looks like some of the capacities in developed markets have shut down. So, a, is this correct? And how much market share we would have gained because of our high utilization as well as competitors' lower utilization?

Ravi Jhunjunwala: See, as I said, if you look at the last 6, 7 quarters results closely and compare ours with most of the other peers, including Europe and American, Japanese, our capacity utilization has been by



far the largest in every quarter. So obviously, in a shrinking market because of demand constraints, we -- if we are adding -- if our capacity utilization is the highest, obviously, we are gaining market share. And this is more or less in maybe more than 15, 20 countries. We are very well diversified in terms of our export reach.

As I said in my opening remarks, we have been exporting about 2/3 of our production for more than 25, 30 years. So we have a good grip of this market. And so -- unfortunately, the steel industry is not doing well worldwide, so we are affected to that extent but the future looks pretty promising. And up till now, most of the consultants were talking about it. But now, in the last 2, 3 months, we have got in the official domain a report from BCG and another report from SMS. And SMS probably knows the most about this industry because they are suppliers of most of the electric arc furnaces and all the related equipment.

So they are all projecting a very bright future for electric arc furnace simply because there's a carbon emission. The carbon emission through electric arc furnace steel is practically 20%, 25% of the same steel which is produced from blast furnace. So that is gathering steam in the rest of the world. India is still behind that because we are still not -- we -- our commitment to Zero Carbon is very far away. But rest of the world has taken a note of this carbon emission and as I said, about 90 million tons of steel capacity -- new greenfield plant capacities have already been announced all over the world. And all the expectation is that it will be about 200 million tons additional capacity by 2030.

So -- and with our expansion and our highest capacity utilization that I spoke about, so we are very well placed to take advantage of that as soon as there is a small tick in the market.

Deep Mehta:

That is very helpful. If I have to take a slightly shorter-term view, like you've said that there is a lead and lag between needle coke in our books as well as current price on which there's margin volatility. So going ahead, what -- is the difference between the inventory in our books and the current price of needle coke still very high? And how should we see the raw material volatility going ahead?

Ravi Jhunjhunwala:

No. See, currently, there is no shortage. There's no problem at all. As the electrode prices have dropped in the last 6, 7 quarters, so have been needle coke prices dropped. So if you are talking about the margin being the difference of the selling price of electrode versus the buying price of needle coke, it hasn't changed much. It has kept pace with the drop in the electrode prices. And this is true in the past also. And fortunately, our buying has been pretty decent. And unlike most of the other peers in the industry, who have taken fairly large NRV hits in their balance sheet over the last 3, 4 quarters. We haven't taken any hit. So our inventory overhang of high-priced needle coke has not affected our results.

Deep Mehta:

Very clear, sir. And now coming to other businesses. Now we are merging a couple of business and separating 2 listed companies. So if you can talk about other businesses for which our M&As might be slightly lower, specifically battery storage business as well as power business. What are the current numbers? And how should the future look like for this newer businesses?

Ravi Jhunjhunwala:

So Riju or Puneet, one of you.



Riju Jhunjunwala:

Yes, I think I can take that one off and I can just give a slightly longish answer so that the other queries are also answered as well. So as you guys -- as everyone must be already aware, HEG holds 49% in a company Bhilwara Energy Limited, which is owned 51% by the promoters directly and 49% by HEG. Bhilwara Energy in turn hold 51% in a 300-megawatt hydroelectric power venture. Both these hydro plants are run of the river plants and merchant power plants. One has been operational since 2002 and the other one has been operational since 2011.

Now, under Bhilwara Energy Limited, we have started a business of RePlus, which is into providing energy storage solutions, both for stationary applications of solar and wind power energy storage as well as for moving electric vehicles, where we're already working with some renowned names Pinnacle, Lyca, etcetera, etcetera, for manufacturing the battery packs for their electric vehicle. So this -- so Bhilwara Energy owns 74% in this and the balance is technically for the promoters who have started that event.

TACC, which is the large graphite anode manufacturing project that HEG had undertaken, had conceptualized around 2 years back. That is taking good shape on ground. We had decided and we had spoken about it in the last meeting also that we are setting up 20,000 tons per annum of graphite anode -- high-grade graphite anode powder, which will be used for the lithium-ion battery manufacturing on the anode side. And obviously, India today does not have any cell manufacturers. So this product will actually go there.

Now, having a platform which has both hydro -- active hydroelectric power, active business in the energy storage space, which is in my personal opinion, I think, in the right -- in the next 5 years, that should see a lot of traction. And also this new project, TACC, which although we are still on track, absolutely on putting up the 20,000-ton per year capacity, will obviously come in terms of the capacity utilization. The way we had explained earlier also, it will not be something which we -- which is a plug-in and then out kind of a thing. You'll have to work very closely with the battery manufacturers, both in India as well as abroad.

So our plans for putting up this project will have to match with timelines of the cell manufacturers. And that's what we are trying to do. And in the meanwhile, we are shuffling around with the technology. So as a conscious decision, we took up this exercise around 6 months back internally, which was made public in this Board meeting, that the resulting structure will have 2 clearly defined companies. One will be the HEG Graphite company, which will have the HEG Limited, which is 100,000 tons graphite plant and the captive 20-megawatt power -- Tawa hydroelectric power units and enough cash in its balance sheet to fund dividend for this year and the leftovers from the expansion and some kind of safety capital as we might call it.

And the leftover company would be renamed to, let's say, HEG Greentech Limited, obviously subject to all the clearances, et cetera and it will take 15 to 18 months. That company would have absolutely mirror shareholding of HEG Limited and that will have Bhilwara Energy's 49% stake of HEG, 100% stake of TACC and Bhilwara Energy's stake of RePlus Limited. So clearly, 3 different businesses but all 3 related to the new age economy businesses and also to do with renewable energy and kind of -- with lithium-ion battery infrastructure.



In Bhilwara Energy, we already have a very safe kind of -- it's a battery company, the parent company -- the parent hydro companies. So you have a safe cash flow inside Bhilwara Energy of between INR100 crores to INR150 crores worth of dividend, which will come in every year. So subsequent to Stage 1 of this demerger process, the promoters who own 51% of Bhilwara Energy will merge their shareholding of Bhilwara Energy into the main company.

And in view of giving that 51% shares that the promoters would be giving for Bhilwara Energy, as per the true and fair valuation, which has been done by PwC and also supported by ICICI Securities. The resultant company will have an increased shareholding later on where the promoter shareholding goes up from 56% to around 70%. But that additional shareholding that is going up in the new company is purely because the promoters are putting in 49% of their equity that they today hold in Bhilwara energy. So then we have 2 clearly separately listed verticals, mirror shareholdings of both the companies. While HEG focuses on the graphite electrode business completely, this new energy business focuses on DC chargers to begin with.

And like Puneet said in the introduction, I mean technology is ever evolving in these new areas. And we are looking at whatever kind of other projects possible, like battery recycling, et cetera, et cetera, as and when it comes under this particular framework. So it gives us and also the shareholders 2 very clear distinct identities, both which are listed with existing cash flows to focus on different businesses, one is the graphite business and one is the new age economy business.

So I hope I've been able to kind of explain it properly in terms of what the resultant structure where we are aiming at. And everything has been done absolutely at arm's length. PwC has done the entire evaluation, in which they've taken their existing valuation of -- so all the valuations of all these independent companies has been done by PwC absolutely and which has been evaluated by ICICI Securities as well.

And Bhilwara Energy has been valued at around INR3,000 crores in total. So HEG share of Bhilwara Energy becomes INR750 crores. From total share of that 51% becomes -- yes and the TACC evaluation is exactly as per the last business plan that we had done in terms of the 20,000 tons and INR1,800 crores of capex coming up in the middle of 2025 operating at 30%, 50%, 75% and then 90% of capacity utilization in year 4. And based on that and the 16% weighted average cost of capital for the new project, the valuation, the HEG today has invested around INR80 crores of money in TACC but we've already valued it at INR280 crores as part of the demerger plan. So that is absolutely fair and square for all the minority shareholders as well as promoters.

And then the culture of both the companies, the manpower requirements of both the companies, the kind of -- ease of structures of both the companies, we can manage accordingly. So that is the rationale behind the demerger. And we hope that in the coming few years, it should gain. And in the medium term also, it should give all the HEG shareholders a huge benefit to take advantage of both these businesses, the graphite and the new energy business. So that's all from my side but I'll be happy to take whatever other questions anyone might have specifically.



- Deep Mehta:** Very clear. Just 1 clarification. There was some noise disturbance so -- just 1 clarification, Bhilwara Energy valuation is around INR3,000 crores. Is my understanding correct?
- Riju Jhunjhunwala:** No, no. So that I stand corrected, the overall valuation of the hydro business is at INR3,000 crores, of which Bhilwara Energy holds 51%. So the valuation of Bhilwara Energy's 51% in the hydro company stands at around INR1,500 crores. Now HEG holds 49% of Bhilwara Energy and promoters hold 51% of Bhilwara Energy. So that is around INR750 crores and INR750 crores each. So for the purpose of valuation, Bhilwara Energy's total valuation for the demerger and the subsequent merger has been taken at around INR1,500 crores.
- Moderator:** The next question is from the line of Saurabh Jain from Sunidhi Capital.
- Saurabh Jain:** Okay. Just needed 1 information on the graphite electrodes business. So based on capacity utilization numbers on the previous con calls, sir, I guess the volumes have broadly remained little under 70,000, maybe around 69,200 to 69,500 during the last 3 fiscals, that's FY '22 to FY '24. Am I right?
- Manish Gulati:** Yes. You're almost there, very close.
- Saurabh Jain:** Sir, my humble request to the management to start providing utilization or volume numbers in our quarterly presentations just like our competitors do, that would be really helpful.
- Manish Gulati:** We can do that. It's not a problem.
- Saurabh Jain:** Okay. Sir, my next question on the -- this demerger thing. What would have been the FY '24 revenue, EBITDA and net profit of the existing businesses of HEG Greentech Limited, which includes Malana, RePlus and AD Hydro Power, if it is possible right now?
- Riju Jhunjhunwala:** So Malana, so BEL's overall value inside Bhilwara Energy as a company specific, there is only 20 megawatts of wind power, which is being operated. So the overall revenue is only around INR17 crores, INR18 crores of the entire Bhilwara Energy. The main value of Bhilwara Energy will come in the form of dividend that it will start receiving from this year onwards from Malana Power Company Limited, which in our estimation should be very safely depending on the selling rates of power every year, should be in the region of between INR100 crores to INR150 crores for Bhilwara Energy as a whole. Half of it predominantly flow to HEG, half of which will flow to the promoters directly.
- Now, for the purpose of valuation, we have taken a very rough estimate of around INR6 per unit of selling price for electricity for the next 20 years and the average generation or whatever the plants have been achieving for the last 10 years as the generation figures for that. So in terms of the real valuation -- real value, if you ask me, the overall revenue is only between 5% to 6% of the entire company what is being done by -- from the new Greentech. But in terms of future valuation, yes, of course. I mean, TACC will start commercial production by middle of next year. Then, depending on the kind of capacity ramp-up over there, that will start bringing significant revenues.



RePlus, we are very confident, which will then become a 100% subsidiary of Greentech business, that we are hoping that this year, we should -- in the year '24-'25 on a very conservative basis, we should be able to do revenues of between around INR250 crores to INR400 crores, which are a decent EBITDA kind of margins, which can only see growth in the next few years because of the kind of growth that we see in the sector.

So going forward, I mean, obviously, next 1 or 2 years, it's more about investments, more about everything in the new Greentech business. But we have a very steady source of revenue in Bhilwara Energy, which will come in the form of dividends. And RePlus itself will start generating cash flows very soon. TACC will take another couple of years before it starts generating very significant revenues.

Saurabh Jain:

Okay. Sir, I missed out on RePlus EBITDA. You had mentioned something.

Riju Jhunjunwala:

So RePlus, let me tell you -- I mean, RePlus is in the business of energy storage solutions. We have a factory, which is a 1-gigawatt hour factory, which is put up in Pune, which is 100% up and running. There, basically, you are importing the cells today from China and making these battery packs, both for the energy storage business and for the vehicle kind of business. So that business is less on capex because these are mostly you're talking about assembly lines which are being setup. So the capex involved in the total RePlus till now is roughly around INR70 crores to INR80 crores only.

But more of the money that goes into the particular project, let's say, if you get a large tender from the government tomorrow to give 200-megawatt hour of energy, a large portion of that will have to be supported by a strong balance sheet of the -- your delivery clauses, your performance guarantees, et cetera, et cetera, which Bhilwara Energy will be in a position to provide. 100% of Bhilwara Energy is under the new Greentech business. And that also alienates the existing HEG Graphite business from providing any kind of guarantees or any kind of performance bank guarantees, late delivery clauses, et cetera, et cetera, for any of the new businesses.

And the growing, steady state, we expect RePlus to easily give an EBITDA margin of between 10% to 15%. Again, this is all dependent on product to product. Every day you will see a massive change in lithium-ion battery prices. They've literally halved in the last 1 year. Where they stabilize, what kind of rates we get the project bid at, it's -- this will all kind of play in the next 2 or 3 years. But a 10% to 15% healthy EBITDA margin.

And this year, we are very confident of ending the year '24-'25, given the order book that we have, at between INR250 crores to INR400 crores. And why I'm giving such a big kind of margin thing between INR250 crores and INR400 crores is because these are large government projects, which you know better than me -- I mean, we are hoping that it closes very fast but they can be delayed because of elections, because of whatever reasons by about a couple of months here or there. So on a conservative basis, it's INR250 crores and on an aggressive basis, around INR400 crores is what our target is for this year. And this company will be a 100% subsidiary of the new HEG Greentech company.



- Saurabh Jain:** That was really helpful. Sir, my last question, what would be the capex number look like for FY '25 and '26 for graphite electrodes?
- Ravi Jhunjunwala:** No, in graphite electrode, we have just...
- Saurabh Jain:** Sorry, anode.
- Riju Jhunjunwala:** So for the anode, so at least the overall capex for the project that we are envisaging is between INR1,600 crores and INR1,800 crores depending on the final selection of technology, et cetera, how much power we need to take, how much -- we are still kind of contemplating between 48-kilometer 250 kVA line or whether we can make do with a 133 kVA line, that changes the entire dynamics. But between INR1,600 crores to INR1,800 crores over the next 18 months is the capex plan that we have for TACC.
- And around INR750 crores of this capex would be clearly funded by the cash to be left behind by the HEG Graphite company, which the HEG Graphite company was anyways committed to invest it in TACC. And the balance will be from the dividends of Bhilwara Energy and a combination of some debt that we take on its balance sheet later once the demerger process is complete.
- Moderator:** The next question is from the line of Pradeep Rawat from Yogy Capital.
- Pradeep Rawat:** So my first question is regarding our margin. So last year, we had a margin in the range of 25% to 30%. And now in this quarter, it's around 8%. So any specific reason for that?
- Ravi Jhunjunwala:** Gulshan?
- Gulshan Kumar Sakhuja:** Yes, yes. This is on account of only that reduction in the selling price quarter-on-quarter basis. Nothing more than that.
- Pradeep Rawat:** Yes. And what's the reason driving the reduction in selling price?
- Manish Gulati:** There is no -- that is the degrowth of steel production between '22 and '23, which is, I mean, resulting in slowdown of demand and all the -- our peer group not being fully utilized. So that is why -- I mean, all -- our competition takes its toll when all -- everybody needs that extra ton of order.
- Pradeep Rawat:** Yes. And my next question is regarding our revenue split. So can you provide a number like how much revenue do we generate from ultra high-power graphite electrodes?
- Manish Gulati:** See, if you -- in the portion of our business, it's roughly, I would say, 70% to 75% of UHP and balance of HP grade electrodes -- I mean, non-UHP electrodes.
- Moderator:** The next question is from the line of Vandana Soni from SBI Mutual Fund.
- Vandana Soni:** Just wanted to understand the merger valuation. You said hydro business is valued at INR3,000 crores. So just wanted to confirm whether this include Malana Power plus AD Hydro Power both or just Malana Hydropower?



And second thing, I wanted to understand the valuation which we have given for TACC Limited. Sir, you said INR80 crores has been invested till now and we have given INR280 crores as a part of demerger to HEG, which implies the total valuation for TACC is INR950 crores. So is that correct?

Riju Jhunjunwala: No, no. I think you have some confusion. At the hydro structure, it is very clear. So we have Malana Power Company Limited, which owns Malana Power Company, which is around 90 megawatts of hydropower and which owns almost 100% of AD Hydro, which is 200 megawatts. So let's assume Malana power company has a 300-megawatt hydro company, in which Bhilwara Energy owned 51%, 49% is held by our Norwegian partners. Now neither are we planning to buy the Norwegian partners out, neither they plan to buy us out and neither are we planning to demerging that company. So the valuation of the entire hydro business is at around INR3,000 crores, out of which, Bhilwara Energy's valuation comes to be around INR1,500 crores. Out of this INR1,500 crores, it is evenly split between the promoters and HEG, 49%, 51%, at around INR750 crores each.

TACC Limited is a 100% subsidiary of HEG Limited, in which HEG Limited has invested around INR80 crores today and that has been valued at INR280 crores. That INR80 crores has been valued at INR280 crores. TACC as a company has nothing to do with the Bhilwara Energy today or with RePlus or with any other company. It's a 100% subsidiary of HEG. And INR80 crores has been infused as equity, which has been valued at INR280 crores based on the numbers that we've always been discussing and a 16% weighted average cost of capital there. So these are the 2 valuations.

Vandana Soni: So what will be the total valuation for TACC? I understood the HEG part is valued at INR280 crores. And post-demerger, HEG will hold 29.46% of this TACC. So this implies INR950 crores of TACC valuation. Is that correct?

Riju Jhunjunwala: No, no. No, that's not correct.

Puneet Anand: Vandana, I'll take this thing. So the demerged entity post the graphite business been demerged, it comprises of 3 main things, when one is 100% subsidiary TACC Limited, where the infusion is INR80 crores, we have 49% of BEL shares, which is today at a book value of INR300 and some investments, which will be roughly for INR700. The total asset, which is in the demerged entity, is roughly INR1,100 crores. The fair valuation of this INR1,100 crores is INR2,200 crores. So 100% TACC, which today, we have infused INR80 crores, it has been valued at INR300 crores, INR292 crores to be very precise.

The BEL equity of 49%, which demerged HEG hold, it is valued at INR1,050 crores. And the investments are being valued at INR776 crores. When you are merging the BEL, so 49% of the equity of HEG Limited will be canceled and the promoters plus another listed company RSWM Limited, will be issued new shares. The merger valuation is INR2,134 crores. Out of that, INR1,045 crores is of HEG and remaining, it is for promoters. So these are the numbers.

Riju Jhunjunwala: So TACC value will be around INR292 crores, as Puneet said.

Puneet Anand: Correct.



- Riju Jhunjunwala:** For INR80 crores of money that HEG has put in today. It's a 100% subsidiary of HEG. And the new Greentech company will own 100% of TACC. It will not be 29%, it will 100% of TACC, the new Greentech company.
- Puneet Anand:** Once the merger is done, the 29.8% equity, being issued, is with the public shareholders, not with the HEG because the demerged entity is held by the public shareholders. So HEG is not holding anything in HEG Greentech Limited.
- Riju Jhunjunwala:** It's a mirror shareholding. It's just a mirror shareholding of what it is today.
- Moderator:** The next question is from the line of Bhavik Shah from MK Ventures.
- Bhavik Shah:** Just wanted to understand like the investment which currently HEG holds, out of which INR750 crores will be transferred to HEG Greentech. Is that right?
- Ravi Jhunjunwala:** Yes, correct.
- Riju Jhunjunwala:** It will remain with the current company while the HEG Graphite company will become like a new company. So in terms of the structure, the graphite -- HEG Graphite will be moved to a new co and all the existing businesses, including INR750 crores of cash will remain in the current HEG Limited, which will be renamed HEG Greentech Limited later on.
- Bhavik Shah:** Okay. And sir, the borrowings will shift to the graphite company or will remain in this company?
- Puneet Anand:** So as for the borrowings which we have in HEG Limited is more for the working capital. This will be part of the HEG Graphite Limited. But we are also adding INR300 crores of cash kitty in that for the future. And the -- any profits which is coming from April '24 onwards is also of HEG Graphite Limited.
- Bhavik Shah:** Okay. Okay, sir. Also, I just wanted to understand the revenue per ton and EBITDA per ton, which you are making right now. What is that number?
- Gulshan Kumar Sakhuja:** We cannot speak specific about our numbers, EBITDA per ton but that can easily be calculated from the number that is available in that -- in the market -- in the public.
- Bhavik Shah:** Okay. Can you just guide with our Q4 volumes, like what were volumes for the quarter?
- Gulshan Kumar Sakhuja:** Volume is 90% based on that, 80,000 capacity.
- Bhavik Shah:** Okay. Okay. And -- okay, sir. Sir, any guidance for FY '25...
- Ravi Jhunjunwala:** Just to clarify, as I just said in the beginning, on the basis of -- we cannot keep talking about 80,000 anymore. I mean we are now fully equipped to produce 100,000 tons. So as I said in my opening remarks, the capacity utilization this year based on 100,000 tons, we expect it to be in the region of 75%.
- Bhavik Shah:** Okay, sir. So this number for '25 would a 75% would be like 80% to assume that, like we can target that?



- Ravi Jhunjunwala:** Yes, in the region of 75%, more like 75%. It could go to 80% if the market picks up a little bit. But at this moment, I'll probably say 75%.
- Bhavik Shah:** Okay, sir. And sir, in the Greentech business, which we have, sir, what kind of return ratios are we seeing in the anode business? As we are saying we want to invest INR1,600 crores to INR1,800, what kind of return ratios do you expect to generate?
- Riju Jhunjunwala:** So in the long run and let's say, 4th year onwards, then we are assuming like a steady state of revenue at 20,000 tons capacity, at 90,000 capacity utilization year 3 or year 4 onwards. It should give us a steady state of between INR400 crores and INR425 crores of EBITDA. That should be the kind of range -- that's the kind of number that has been taken for the purpose of valuations and also at the beginning of the conceptualization of the project itself few years back.
- Bhavik Shah:** If I like heard your opening remarks currently, in RePlus, we are expanding from 1-gigawatt to 5-gigawatt, right?
- Riju Jhunjunwala:** That is a very long-term plan. That's a long-term plan. The area that we acquired is good enough to go from 1 gigawatt to around 3 gigawatts. But when I say 1 gigawatt, this is of battery assembly. I mean, let's make one thing very clear. This is not 1 gigawatt of lithium-ion cell manufacturing because that's a whole different business altogether with like \$1 billion plus per gigawatt hour of capex. We are purely in the business of battery assemblies and battery pack manufacturing. So we have manufacturing capacity of 1 gigawatt hour based on three shifts of operation today for different kinds of battery chemistries and making battery solutions out of it.
- So our raw material for that is the lithium-ion battery cells. which we are importing currently from China. And these are the same companies that tomorrow, hopefully, will become our clients once TACC is functional and making its graphite anode powder. So the clients of -- so for the buyers of TACC would be the suppliers for RePlus if you want to put it that simply.
- Bhavik Shah:** Okay. Sir, this INR250 crores to INR400 crores is like from our peak revenue potential. This is only for FY '25, right?
- Riju Jhunjunwala:** Yes, because this has unlimited revenue potential. I mean, the way the whole ESS business is growing in India, almost every tender that you have seen from SECI, almost every tender that you are seeing from any private company today is for round-the-clock power. And obviously, with the renewable energy exceeding its targets today in India, for the solar and for the wind power projects, the peak power can only be provided by a backup of energy storage solutions.
- Now -- so in the long run, there's going to be a huge demand, not only in India -- I mean, we are already in the company and we already finished a project, if you've heard of the NEOM City in Saudi Arabia, which is being built. It's not a very large project, it's a INR45 crores project for RePlus but we've already handed over that project -- to the NEOM City. So that is also in the business of providing solutions to export customers, not just in India. But over a 5-year period, this can really be -- grow into a very lean and thin and a very good -- kind of good, sustainable kind of a business in power.



Bhavik Shah: Current capacity of, say, 1 gigawatt, INR400 crores could be a maximum potential of revenue if -- but we can always expand.

Riju Jhunjunwala: Yes. Yes and no. I mean, I'm not saying INR400 crores is the maximum because a lot of these projects -- a lot of projects will be where you have to assemble the complete battery pack. A lot of projects will be the projects in which the customer buys the cells and delivers it to you and you just have to provide them the solution overall. So revenue is really not the key over here. This same INR400 crores of revenue could be INR1,000 crores of revenue if all the sales were to be bought by us instead of being supplied by the clients.

This has to be seen more by an EBITDA basis but we are very, very confident that I think now this business is established, it's a year -- the factory has been running for around 6 months. And we are seeing very encouraging results. We just signed an MoU, which is in the public domain EKA buses, the Pinnacle's buses that they are coming up with. We've already supplied 100 battery packs to them and we are in the process of supplying 2,000 more battery packs to that company. So in the long run, we have good potential both from case study and moving the application for this particular business.

Bhavik Shah: All right. And sir, if I squeeze in 1 last question. Sir, this TACC will be -- plant will be operational from September 2026, right?

Riju Jhunjunwala: No. The TACC plant will be in operation from around middle of, let's say, June or July 2025.

Bhavik Shah: Okay, 2025.

Riju Jhunjunwala: But -- '25, yes, plant will start commercial production but I said to achieve, let's say, the first year of revenue would be around 30% of capacity utilizations because there's a lot of work that you need to do around with the battery companies along with the end user to kind of match the exact profile of that. But by September 2026, we can easily see a 75% kind of a capacity utilization for the 20,000-ton plant.

Moderator: The next question is from the line of Pradeep Rawat from Yogya Capital.

Pradeep Rawat: So we import battery cells from Chinese players and we will supply them lithium-ion anode to the cell manufacturer, right?

Riju Jhunjunwala: I mean, yes and yes and no because today, India does not have any lithium-ion battery manufacturers but you have a lot of companies, Reliance, Ola, Exide, Amara Raja, Rajesh Exports, other companies, Genpact, which have signed a lot of MoUs with the government to put up large capacities for at least 50-gigawatt hour of battery manufacturing in India by the year 2026. Now that 50,000 tons -- 50-gigawatt hour of battery manufacturing -- cell manufacturing would turn into a demand of 50,000 tons of graphite powder. And in India, really, today, there are no real manufacturers of graphite powder.

Apart from us, there is a company called Epsilon, which you all must have heard of. There is Himadri Chemicals. Everyone is working on pilot-scale plants. We also have our own 100 tons per year of pilot plant, which is already operational, where we are working with 24 to 25 different



grades of raw material along with the customers to provide them with this solution. But today, when we have to buy cells for RePlus, the only option is to either buy from China or if the customer wants a non-Chinese product, then it's probably 1.5x higher and you have to import from countries like Japan and South Korea, et cetera, because the cost of manufacturing of these cells in China is far lower than anywhere else.

So we are importing these cells and converting them into battery packs and racks. And then a very important portion of that is the battery management system, the energy management system, everything, which is designed as per the particular client's application. So that's what the business RePlus is in.

Pradeep Rawat: Yes. So once our plant is operational, so we will be seeing a demand from Indian players also for our graphite anode powder?

Riju Jhunjunwala: Correct. So the rationale behind putting the plant, if you ask me in one line, the rationale and the core rationale behind putting the plant is obviously in the long run to cater to the Indian suppliers. But you know, I mean this demand and supply cannot be exactly matched time to time.

You don't know if their plant gets delayed by 2 years, if they start importing anode powder. So we have already started working with all the larger -- these larger companies, whether they are based in China, whether they are based in Europe, whether they are based in Japan or Korea. We've already started trials of our graphite anode powder that in the initial few years, even if we have to export the graphite anode powder, it should be a very profitable venture then also.

So the core philosophy behind the project is to cater to the domestic demand in the long run. But in the short and medium run, if the domestic demand does not sum up as anticipated because of whatever delays in their plans of putting up the cell plants, our plants can easily cater to the exports market also to begin with. So we are not changing our manufacturing plan as far as creating regional services.

Moderator: The next question is from the line of Pranay Khandelwal from Alpha Invesco.

Pranay Khandelwal: I just wanted to understand and clarify one thing. TACC, the graphite anode business, that stays with the HEG Greentech business, right?

Riju Jhunjunwala: Right, right, right.

Pranay Khandelwal: Right. And we have INR1,600 crores to INR1,800 crores kind of capex. I just wanted to understand that you -- how will it be funded?

Riju Jhunjunwala: So like we mentioned earlier, around 700 -- around INR80 crores of it has already been funded by HEG in terms of the land and the basic civil work that have started. There's around INR750 crores, which will be left in the balance sheet of the HEG Greentech company, which will be used for funding this.

We will have a dividend in Bhilwara Energy of easily close to around INR200 crores or INR300 crores of distributable dividend in the next 18 months, which will be used for this. And the



balance INR400 crores to INR500 crores can easily be funded by debt. I mean, we are being very conservative when we are talking about this because if we are investing INR1,500 crores of equity into this business, even if I were to consider 1:1 debt-equity ratio, one only needs to put in around INR800 crores of investments, for which the funds are already tied up, even to maintain a 50-50 debt-equity ratio.

One can easily take an INR750 crores debt and complete this project. But as we go along, depending on the cash availability of Bhilwara Energy, what kind of requirements we have, whether it is 12 months, whether it is 18 months, specificities getting matched. And I think we have the good mix of equity and debt. And for the first phase, I think we'll try to go for maximizing whatever equity we can put into the business. And for the subsequent steps of growing that particular business in the next 3 to 5 years, debt will always be a very welcome option over there.

But today funding 20,000 tons of INR1,600 crores should not be a problem at all with the INR750 crores of cash in the resulting Greentech balance sheet, INR80 crores that has already been invested by HEG and around INR250 crores to INR300 crores of money that Bhilwara Energy can support. And the balance INR400 crores will be your debt portion. So we'll be able to complete the project absolutely without any problem in terms of raising any more money for this particular business for Stage 1.

Later on, once -- any kind of options are open from kind of doing that business including getting any strategic partner, getting any kind of private equity, et cetera, for that particular business. But that's at the later stage once it's established and the plant is up and running and we have a good future of concept of what I'm actually talking about right now.

- Moderator:** The next question is from the line of Deep Mehta from Bank of India Mutual Fund.
- Deep Mehta:** Just 1 clarification. After these -- all the transitions and once Bhilwara Energy becomes 100% part of HEG Greentech, we expect roughly INR200 crores to INR300 crores of dividend from - - cumulatively in the listed company, correct?
- Riju Jhunjunwala:** Yes. So this will be like, let's say, 3 years of dividend or 2.5 years of dividend because that is -- some, I mean, already there, we've already announced 1 round of dividend into Bhilwara Energy. And the plan is to keep the money over there in the Bhilwara Energy Limited as part of the dividend to be invested as part of TACC Limited. And this number can range -- this number will range anywhere between INR100 crores to INR150 crores a year depending on the selling prices of that particular year.
- Deep Mehta:** Okay. So annualized dividend will be somewhere between INR100 crores to INR150 crores?
- Riju Jhunjunwala:** Correct. And, again, it is very difficult for me to...
- Ravi Jhunjunwala:** Just to clarify, see, these were the 2 hydro projects that the group put in the last 15, 17 years. And these were the first 2 projects in the country in the private sector and we took the risk of not signing a long-term PPA. So at that time, there was a lot of debate in the banks and financial institutions and a couple of institutions backed out of their commitment of loan. But we were



convinced that by signing a PPA -- long-term PPA, we will only lose by signing a PPA because we were of the opinion that the open market selling price will always be higher than a fixed-price PPA. And that fortunately turned right for us.

So consistently, this number that we are now talking about, the dividend number that we expect to get every year is based on the last 3, 4, 5 years of actuals. And as Riju explained, this particular company is owned 51% by us and 49% by a Norwegian partner, which is the largest hydro company in Norway. So we have seen the selling prices of power in the open market to be at least 50%, 60%, 70% higher than what would be -- what we would have got had we signed a long-term PPA. So that was a very critical decision that we took. That was a big risk that we took about 15 years ago.

And because we were convinced that in India, the power prices will keep going up and hydro is the most competitive power as we all know. Unfortunately, both these projects got put up at a fairly reasonable price. And so within 4, 5 years of commissioning of the project, we made enough money to repay all the debt. So for the last about 6, 7 -- 10 years, probably, we have been a debt-free company. And in hydro, as you know, there is very small cost of running the plant. So interest is normally between 70% and 75% of the revenue -- I mean, of the cost in the first 5 to 10 years till you carry the debt. So we didn't carry that debt for a very long time.

Within 4, 5 years of the operation, we were able to repay the entire debt, which would have been more or less in the region of INR1,200 crores, INR1,400 crores. So this is a very reasonable number that we are talking about, a 51% dividend of about INR100 crores to INR200 crores, in between that. So selling prices of power are very attractive. And in Hydro, as you know, we can cater to, what you call, peak demand.

So in the last 6 months of the winter time, October to March, when the generation goes down to 15% to 20%, 50% of capacity but it gets compensated by very high price of selling number -- selling price because of the peak times. So we generate all the power in 4, 5 hours where the peak prices apply. So that figure of INR100 crores to INR150 crores being 51% of our dividend is very, very easy. I mean, it's not an exaggerated number that we are talking about. We've seen this in the last 4, 5 years.

Puneet Anand: Just to add here 1 more thing. This BEL also through AD Hydro owns 170 kilometers of transmission line. There, some relief is given by CERC and we may receive INR400 crores of transmission income in next 1 or 2 years. That will also increase and contribute to the profits.

Moderator: That was the last question in the queue. As there are no further questions, I would now like to hand the conference over to Mr. Jhunjhunwala for closing remarks. Over to you, sir.

Ravi Jhunjhunwala: So thank you, friends, for a very insightful discussion we have had today. In the last 2, 3 weeks, ever since we announced the demerger in the public domain, there have been lots of speculation. So it's good that we all spoke about it and we spoke about it very freely. And I believe you would have got all the answers that you were looking for. And if somebody didn't get a chance and we'd -- or somebody could not or we were not able to satisfy somebody on the numbers, we'll



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be very happy to have a one-on-one call with anyone, just to take care of all those speculations which were going on for the last 10, 15, 20 days.

So thank you very much and look forward to speaking to you again.

Moderator:

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