



LNJ Bhilwara Group Company



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HEG/SECTT/2024

24<sup>th</sup> August, 2024

<b>BSE Limited</b> P J Towers Dalal Street MUMBAI - 400 001. <b>Scrip Code : 509631</b>	<b>National Stock Exchange of India Limited</b> Exchange Plaza, 5th Floor Plot No.C/1, G Block, Bandra - Kurla Complex Bandra (E), MUMBAI - 400 051. <b>Scrip Code : HEG</b>
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**Sub: Transcript of Earnings Conference Call on Q1 FY25 of HEG Limited**

Dear Sir/Madam,

Please refer to our Earnings Conference Call scheduled on 20<sup>th</sup> August, 2024 intimated vide our letter dated 14<sup>th</sup> August, 2024. Please find enclosed the transcript of the said Earnings Conference Call.

The said transcript is also available under the Investors Section of the website of the Company i.e. [www.heg ltd.com](http://www.heg ltd.com).

This is for your kind information and records.

Thanking You,

Yours faithfully,  
For **HEG Limited**

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HEG Limited's  
Q1 FY25 Result Conference Call  
August 20, 2024



**Management: HEG Ltd**

**Mr. Ravi Jhunjunwala - Chairman, Managing Director & Chief Executive Officer**

**Mr. Riju Jhunjunwala – Vice Chairman**

**Mr. Manish Gulati – Executive Director**

**Mr. Om Prakash Ajmera – Group Chief Financial Officer**

**Mr. Puneet Anand – Chief Strategy Officer**

**Mr. Ravi Tripathi – General Manager Finance**

**Moderator**

**Mr. Navin Agrawal**

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**Moderator:** Good day, ladies and gentlemen. Welcome to the HEG Limited Q1 FY '25 Results Conference Call organized by SKP Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the management's opening remarks. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Navin Agrawal, Head Institutional Equities at SKP Securities Limited. Thank you, and over to you, sir.

**Navin Agrawal:** Good afternoon, ladies and gentlemen. It's my pleasure to welcome you on behalf of HEG Limited and SKP Securities to this financial results conference call with the leadership team at HEG Limited. We have with us Mr. Ravi Jhunjhunwala, Chairman, Managing Director and CEO; and Mr. Riju Jhunjhunwala Vice Chairman. Along with their colleagues, Mr. Manish Gulati, Executive Director; Mr. Om Prakash Ajmera, Group CFO, Mr. Puneet Anand, CSO; and Mr. Ravi Tripathi, GM Finance.

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. Friends, good afternoon, and welcome to our financial results conference call for the first quarter Fiscal year '24 - '25. Global crude steel production for the first half of calendar year '24 remained flat at about 955 million tons which is more or less similar to last year, as reported by the World Steel Association. However, production trends varied significantly in this 6 months across the major steel producing areas.

U.S. saw a decline of 2.4%. Japan declined by 2.7%, South Korea 6.8%, and Russia 3.1%. In contrast, Indian steel production grew by 6.9% which grew up to about 74 million tons backed by very strong domestic demand for infrastructure, real estate, etc. Germany and Turkey also grew by 4.3% and Turkey as high as 14.5%, respectively. China produced about 531 million tons of steel in the first 6 months, reflecting a decline of about 1.1% over 2023.

It is important to highlight here that China produced about 55.6% of the total world steel in the first half of current year and as such, any substantial change in steel production in China does affect the rest of the world. Chinese steel exports increased significantly due to slowdown in their domestic demand. In the first half of 2024, China exported 53.4 million tons in the first half of 2024, while their full year export in 2020 was 53.7 million tons meaning what they exported in the whole year of 2020, they exported the same volume in the first 6 months.

At this rate, China may end up exporting more than 100 million tons of steel in the full year 2024 which is very close to the highest ever export of 112 million tons in 2015. Such large exports from China to rest of the world does affect other countries' own steel production due to cheap prices of Chinese exports of steel. This obviously has an impact wherein the demand for graphite electrodes reduces as the rest of the world produces less steel under pressure from Chinese exports. And obviously, this results in reduced demand of electrodes.



Now coming to our quarterly performance. As you have seen from our results, our profit before tax was lower compared to past quarter. Here, I would like to mention about onetime impact of one of our treasury-related investments in equity shares where we have taken a mark-to-market loss due to fall in its stock price and booked it under the head of other expenses. We are, however, bullish on this particular investment in the medium to long term, and we do not see any cause for concern at this stage.

Operationally, our performance was more or less similar to past 2 quarters. Now coming to the outlook. As you are aware, our expansion from 80,000 to 100,000 tons is fully complete and all the new facilities are running very smoothly. And this makes our plant by far the largest at a single location in the entire Western world, leading to certain cost advantage over all other large producers, majority of whom are in the Western world having higher cost of production.

Our capacity utilization for '23-'24 was 82% with the first 3 quarters on the basis of 80,000 tons capacity and the fourth quarter when our capacity became 100,000 tons. For Q1 '25, which means April, May, June we were close to 80% capacity utilization, and we hope to be close to 75% for the full year despite steel not doing very well in the world.

Our capacity utilization is the highest amongst all our peers in the world. The electrode pricing continues to remain under pressure due to reduced demand. The needle coke prices kept correcting through the past year due to difficult market conditions. But the spread between electrode prices and needle coke prices did narrow down, bringing pressure on margins as is evident when you look at our margins for the last 6-7 quarters.

Our finished goods, work in process and raw material inventory are at very normal levels and we do not have any inventory overhang of higher costs. While we are currently facing some near-term margin pressures, we are very positive about our industry in the mid to long term. Decarbonization has now become an irreversible process. We are constantly tracking more and more announcements of the new Greenfield electric arc furnaces from different parts of the world.

As we speak, more than 100 million tons of new Greenfield capacities have already been announced, which will be in operation between now and 2030, out of which about 64 million tons is likely to be in operation by as early as 2027, and we keep seeing more and more such announcements on a regular basis. As we have been exporting about 65% to 70% of our production to more than 30-35 countries for a very long time, we are in a good position to meet this increasing demand for our products all over the world.

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 rapid pace around the world. Friends about the recent restructuring and demerger announcement that we made last quarter, the update is that the scheme of arrangement is progressing well and is currently with the SEBI and stock exchanges, pending approvals.

After the stock exchange approval, the scheme will also require approval from the NCLT, National Company Law Tribunal. We expect the process to be completed by middle of next year. In conclusion, our first quarter results may not have been satisfactory given the tough market conditions. But operationally, we have still done well compared to our peers in the industry. HEG remains one of the most competitive plants due to our large capacity at a single location. The next few quarters may see margins remaining under pressure, but we are hoping that the demand would come back sometime from 2025 onwards and we are fully equipped to take advantage of that through our expanded capacity.



We have all the technological capabilities, operational efficiencies and market reach to take our company forward and to succeed and thrive in all emerging situations to create long-term value for all our shareholders. With this, I will now pass on the floor to our General Manager Finance, Ravi Tripathi, who will take us through the financial figures. Following that, our Vice Chairman, Riju; our Executive Director, Manish and our Chief Strategy Officer Puneet, and I will be delighted to address any inquiries or queries that you may have regarding electrodes and the demerger announcement. Now over to Ravi Tripathi.

**Ravi Tripathi:**

Thank you, sir. Good afternoon, friends. I will now briefly take you through the company's operating and financial performance for the quarter ended June 30, 2024. For the quarter ended June 30, 2024, HEG recorded revenue from operations of INR571 crores as against INR671 crores in the corresponding quarter of the previous financial year. During the quarter ended June 30, 2024 the company delivered EBITDA of INR59 crores as against INR178 crores in the corresponding quarter of the previous year.

The company on a standalone basis recorded a net profit after tax of INR 3 crores in Q1 FY 2025 as against INR 98 crores in the corresponding quarter of the previous year. And on a consolidated basis, the net profit after tax is INR 23 crores in Q1 FY 2025 as against INR 139 crores in the corresponding quarter of the previous financial year.

The company is long-term debt-free and had a treasury size of nearly INR917 crores as on June 30, 2024. The detailed presentation has been uploaded on the company's website and on the stock exchange. Now, we would like to address any questions or queries you have. Thank you. Over to Navin.

**Moderator:**

Thank you very much sir. The first question is from the line of Pritesh from Lucky Investments. Please go ahead.

**Pritesh:**

Sir, first, on the graphite anode plant. What is the capex spend so far on the green anode plant? And what is the cash balance that we have in HEG's balance sheet? Then with respect to Malana Power, post the restructuring what is the holding that HEG Greentech would have in Malana, the percentage ownership. And what is the P&L of Malana Power? Basically, this 300-megawatt hydro power plant in FY '24, what was the utilization EBITDA and PAT for this plant?

**Ravi Jhunjunwala:**

I'll ask Riju to answer that, but you talked about Malana 300 megawatt. There are actually 2 projects. One is called Malana, one is called AD Power, which is Allain Duhangan which is the location. So Malana is 100 MW, the other one is 200 MW. The is 300 megawatt, but there are two different projects. So now, I'll ask Riju to take up.

**Riju Jhunjunwala:**

Yes. So on the graphite anode part of it, the total capex that the company has done till now is around INR 60 crores, out of which between INR 30-35 crores is purely on account of land. And then the balance into levelling of the land and the boundary walls and environment approvals and the preoperative expenses.

So total expense till now is around INR 60 odd crores. The exact cash balance in HEG's books, I think Ravi Tripathi would be in a better position to answer that question specifically. And in HEG Greentech, today HEG owns 49% of Bhilwara Energy and promoters directly hold 51% of the company.



So when this merger happens of Bhilwara Energy with HEG Greentech, the exact percentage, which will evolve will depend on the exact valuation of Bhilwara Energy which will be exactly the same for the promoters and for the HEG shareholders, but to answer your question, I think -- and on the profitability of Malana Power, I think Mr. Ajmera is here. He is expertly explain to you about the profitability of Malana and the cash balance, I think, Ravi Tripathi, if you can just give the exact cash balance on HEG books right now.

**Ravi Tripathi:** The exact figure is INR917 crores treasury is there.

**Om Prakash Ajmera:** With respect to the EBITDA of Malana and AD combined, Malana consolidated is about INR 350 crores for FY 2023-'24.

**Pritesh:** Okay. Sir, just one clarification on this hydro power plant. So eventually -- the HEG Greentech, which would be the new company on demerger and the merger of Bhilwara into that company, how much holding HEG Greentech will have in these hydro power plant?

**Puneet Anand:** So I'll take this question. So today when the entire restructuring will be completed, HEG Greentech will hold 51% of Malana Power, 49% is held by the Statkraft. And then there is 100% companies underneath the Malana Power, which is AD Hydro. So in totality, HEG Greentech will be holding the 51% of the entire Hydro assets like today. There's no change in the asset of Malana or Hydro.

**Pritesh:** And sir, lastly, one clarification on the graphite anode plant. Your targeted base for production in FY '26 and you have spent only INR 60 crores. So is it that the machinery orders have been placed for or is there any changes in the time lines for commercializing these assets?

**Ravi Jhunjunwala:** So I'll tell you very briefly on this particular thing. We've kind of pushed forward our commissioning target for this particular plant. That's only on account of two things. We are absolutely ready with all the machinery that has to be placed in terms of the orders. We are completely ready with all the civil design, and we are completely clear with all the sales engineering drawing which has been done by Mott MacDonald.

So tomorrow morning, as of now, if we actually give the go ahead, then the plant construction can start fully on. The only reason why we have pushed it slightly back by maybe like 1 or 2 quarters is for two reasons. Firstly, the plants that were coming up in India, their plans have also been kind of delayed. And this is on account of just purely the last 8 to 12 months of a complete drop in lithium ion battery prices from around \$85 to \$90 per KWH to around \$55 per KWH.

Now we are just studying this particular thing as to whether it is temporary or permanent. But after getting into all details, I mean, we believe this is the bare minimum that the prices can actually go to because of the overcapacity in China. And like you all would have seen in other companies as well, the overall ecosystem of the EV in auto use globally has not gone as per expectation.

But this is just a demand supply kind of a mismatch temporarily. And obviously, because of this we are trying to renegotiate with the state government and different other state governments in India on the power prices because power constitutes around 30% to 35% of the variable cost in this particular project.



So while the demand for anode is absolutely one way, which is upwards, the prices at which Chinese companies are selling today is below the variable cost as of date because of the large overcapacity that they have created. But ultimately, our aim is to sell to the Indian market and try to export whatever balance to the export market. So we are in complete touch with all the possible Indian consumers, and we are trying to match our plant commissioning along with them.

So we are absolutely ready from our side. But obviously, I mean every day is a new kind of day in these new technology businesses. And we are trying our best to try and renegotiate the kind of power prices because they will ultimately determine the final price for this product.

So while Madhya Pradesh is still the most preferred option for us, we are trying to look at a couple of processes in this particular plant, if we can shift it to some other state where the prices of power might be lower. So everything is absolutely ready. There is absolutely no confusion on the company's path to put the project up. There is no confusion on the demand.

The only temporary confusion that has come about is in the last 8 to 10 months with the battery prices crashing. And obviously, anode being a part of that, how to make sure that our margins are protected, in which power plays the most important role. So we are trying to renegotiate with the Madhya Pradesh government that they should allow us to buy power from third parties or captive without putting any kind of surcharge or different states like Odisha, et cetera, which are offering power at a much cheaper rate.

So just -- it is just that process that we are involved in. Everything else remains absolutely unchanged. And this INR 60 crores of capex that I spoke about, regardless of whenever the plant comes up, this is something that had to be invested because of the land and because of the environmental clearances and clearing of the land and the boundary, et cetera.

So it is not like sunk cost or it's not like a cost which has been just done like that. It's something that we would have to do in any case, regardless of 1 or 2 quarters of actually spending the money. So like Ravi Tripathi mentioned, the INR910 crores sitting in the balance sheet of HEG, which continues to grow, it would just be that decision on when to start spending that kind of money on the ground. That is a decision that we've just purposely kind of delayed by a couple of months or quarters depending on how well we can negotiate with the state governments.

**Pritesh:**

So it's pushed to FY '27 as of now?

**Riju Jhunjunwala:**

I mean FY 26-27, most definitely, the plant would come up because that is the time when the battery companies would have started. So I mean, to be honest, on ground, except for Exide, no other company has started physical ground breaking and physical production of batteries as of today. So we are working very, very closely with all of them, because the whole kind of accreditation process with all these companies will take between 15 to 18 months in any case to produce from our pilot plant. So that process is fully on.

So there is no change in the project. There is no change in the thought process for the project. The only thing we need to work is how to further lower the opex cost, which primarily being the power prices for which we are fighting with the different state governments and trying to get the best price possible from there. So there's no change in the project. Just that, I mean, we are looking at a couple of quarters and which will also coincide with the ultimate battery producers. So that's the only change.



- Pritesh:** Okay. I'll come back if there are more questions.
- Moderator:** The next question is from the line of Vipraw Srivastava from InCred Capital.
- Vipraw Srivastava:** Right. First question was on the -- investment in GrafTech, which you have done in U.S. So that stock is getting a notification from the exchange for delisting -- potential delisting because stock price has come below \$1. So in that event, what happens to your investment? And how do you plan to mitigate that strategy?
- Puneet Anand:** Puneet Anand this side. The exchange has given them the time line for 6 months. And I believe, this is our understanding, they have different ways of getting it -- keeping it in the exchange itself because we understand they are looking for an investment, and they are looking for some more fund flow. As a normal way, like we -- like I can give you an example, like HEG today is doing a split of shares. They can also do a reverse split. And the price will again go above \$1. So there are ways to mitigate these kind of delisting things. We don't foresee any kind of challenge today with our investment in GrafTech.
- Vipraw Srivastava:** Right. Fine. Fair enough. Second question, sir, a few quarters before, the management said that HEG power cost is competitive with China. I mean, the figure which I remember was around INR 5.5 per kilowatt hour. So what -- how has that changed? At what price does HEG plans to procure the power now? Is it below INR5.5? Because in China, in Mongolia, power cost is around INR5 to INR6 only per kilowatt hour. So I don't see much of a difference there, but what is HEG's management view on that?
- Riju Jhunjhunwala:** So I'll take the question again. I mean, it's more related to the green power. HEG's current cost of between INR5 to INR5.5 is on the basis of HEG shutting off its thermal power plant. So when HEG shuts off its thermal power plant, in lieu of that, the government has given a subsidy and giving power at INR5 to INR5.5. That is limited to the HEG site where the HEG's current site is there. It does not mean that if we are putting up the anode project in Madhya Pradesh at a separate location, then the same subsidy would apply to that.
- Vipraw Srivastava:** But then why do you have to move to a separate location if you can get power at INR5.5 and your current...
- Riju Jhunjhunwala:** No. Because that location, we cannot put -- we are still trying to evaluate because that particular location, after our expansion of graphite from 80,000 to 100,000, there is literally no space in that particular plant to kind of put up a new project over there.
- But we are still looking at ways and means on how we can do a little bit of mix and match if there is some possibility of doing that. So when I mentioned that we are trying to reduce the cost of power, just to give you an idea, I mean, in producing 1 ton of anode powder, there is one particular process that involves 11,000 units of power. If we can save INR1 over there or INR2 over there, you're talking about potential savings of INR20,000 per ton as far as this is concerned.
- When you're talking about a long-term project of 15 to 20 years for this particular kind of thing, I think a couple of quarters of delay in trying to make sure that we at least get the power at the cheapest ways possible, wherever we put that particular process is something that we are working on day and night on. And if we can manage to achieve that, that will make us definitely much more competitive. And China,





like you spoke, I mean, they already have the sunk cost. These projects have been -- people are producing over there for more than 5 to 8 years because China was big on EV for the last 10 years.

So I mean, they only have the variable cost to look at. But today, the product is selling at x price, they have no other option than to produce that product over there at whatever price of power they're getting. But when we are selecting a greenfield project and going from it right from the start, then even that INR1 or INR2 of difference in the power price can make a huge difference over a 10-year period of the product. So which is the reason why we are kind of looking at that.

**Vipraw Srivastava:** So sir, I mean, if any state can give you power as low as INR5 or INR5.5, you can do a project there. That -- is that understanding correct, right?

**Riju Jhunjunwala:** Yes. We can actually split the whole project into 2 parts. And actually, the main part, which is the graphitizing part that consumes the maximum amount of power, which HEG has the competitive advantage because of us knowing the graphitizing process very well because of the electrode business in the last 50 years.

There is absolutely no problem in looking at any state in India or outside India also to kind of do this particular process at a particular place. Because it will make a huge difference per ton of between -- around INR20,000 per ton in the overall scheme of things. So if you're talking about 20,000 tons per annum and INR2 difference of power, that makes it around INR40 crores a year.

So which is something that -- a couple of quarters of trying to negotiate with different governments or that kind of thing, I think it's something that we should be looking at and that's what we're doing.

**Ravi Jhunjunwala:** Just to add something here. When we -- there was a time, I think, 6, 7, 8 years ago, when we were operating 70 megawatts of thermal in addition to the 15-megawatt to 20-megawatt of hydro that we have, which is still operating, but we were also operating 65 megawatts to 70 megawatts of thermal. And at that time, Madhya Pradesh government was surplus in power. So they more or less gave a discounted price of power for a certain number of years to some industries which were among the largest power producers in the state.

So in that backdrop, we closed down our thermal plant, which is still there. I mean, we can start it the day we want, but obviously, at current prices of coal, it is much more interesting to buy from the grid than operate that plant, but that plant is still standing there.

**Moderator:** We'll take the next question from the line of Gaurav Paul from Excellence Financial Service Financial Services.

**Gaurav Paul:** Sir, my first question is on the anode powder business. So given the prices of the lithium-ion battery, which have fallen, as you also mentioned in the call, what was the fall in the prices of the graphite anode powder prices? I mean the battery price fell. So what was the percentage of fall in the prices of the anode?

And also, since now the BESS is becoming very attractive. I mean there are multiple tenders which are coming out. And as the prices of the battery energy storages become cheaper there might be more demand for those for grid level or utility level battery storage. So could you please give your thoughts on that?



**Riju Jhunjunwala:**

Yes. So the battery prices have actually fallen in the last 12 months from, let's say, \$85 to \$100 per KWH to around \$50 to \$60 per KWH. Now when we do all the calculations backwards, I think below \$50 is just a dream. That is something that is not going to happen according to us because below that, you go below the variable cost for everything.

Anode is between 10% to 14% of the battery prices. So let's say, when the battery prices were \$85 to \$100 the anode was being sold at between \$10,000 to \$12,000. Today when the prices have gone down for the batteries up to \$50 to \$60 per KWH, the price of anode too today, you are getting between \$6,000 to \$7,000 per KWH depending from application to application.

Now very correctly, you spoke about the BESS thing. There, the grade of battery that you need; for that, you can sell anode at \$5,000 to \$6,000 per ton. But for the EV applications, you still need a higher grade of anode, which will need around \$7,000 to \$8,000.

So at \$8,000 or \$7,000 per KWH per ton of anode, the project is still very, very viable and excellent IRRs on that particular range. It's when you go below that range of around \$7,000 that we have to start seeing the cost of electricity, et cetera, which will make us more and more competitive. And the good news for a company like ours, which is like the new company, which will be made, the HEG Greentech, there, we are already present in the BESS business in which we are already doing projects in India and outside of India. There, our raw material is the battery itself.

So there, we are seeing the tenders that are now coming up with SECI, et cetera, in which the prices are for 20 years, they are selling prices between hybrid of solar, wind and BESS system at INR3.40 for 20 years. So the cost of BESS systems, which used to be INR2.5 crores per megawatt has come down to around INR1.25 crores per megawatt. So you will see a huge demand in BESS system coming up in India in the next few years, for which you already have our company, which is totally held by Bhilwara Energy and which should be part of the new HEG GreenCo, which will be -- which is Replus.

And there, the business development that we are seeing, both India and outside of India is very, very strong. So that too should be contributing a good value to the overall -- this new Greentech business that we are trying to get into. But to answer your question, Anode is between 10% to 14% of the lithium-ion battery prices. And there is always room for better grade anode that we wish to produce, which will be used more for -- not for stationary applications, but more for the moving application.

Then the requirement would be for the higher grade, which is what we are targeting at. But regardless of that, power consumption is the same. So we'd rather try to look at some cheaper sources of power to make ourselves more and more competitive in that.

**Gaurav Paul:**

Understood, sir. My second question is how sticky is the anode powder products? So for example, say, Exide mix of product or a certain battery. And the -- I mean, can they switch between, say, an HEG or Himadri or Epsilon? Or is it like a powder grade, which is chosen based on the size?

**Riju Jhunjunwala:**

I'll answer that because we also here in the last 1 year, we are in the process of understanding this business much better. So let's say Exide has to produce lithium-ion batteries. They have around 42 raw materials that they have to purchase in order to run the line efficiently. Graphite anode is only one of the 42 products.



So once they select between an HEG or an Epsilon or Himadri or any other company that they want to buy the anode from, then it is very difficult or I'd rather say, not worthwhile to try and consider a change. Because then that will mean a change in their entire process, changes their entire chemistry, which is why I think our decision to put up our power plant -- or sorry, pilot plant way in advance so that we are already talking to companies like Exide and all to start using our anode.

So yes, technically, they can change our anode from our anode to some other companies. But once it is set, it is not going to be something that they would like to change immediately. They would give 2 or 3 year, 4 years kind of order depending on price, but this will not be something that will be discussed on a monthly to monthly basis. Okay, that's quite sticky that way.

**Gaurav Paul:**

Right. Sir, and also last year, actually, there were some notification on news about China blocking exports of anode powder. How is that progressing? I mean, is that still going on? Or are they losing on that?

**Riju Jhunjunwala:**

No. So the U.S. actually imposed the ban on Chinese products for lithium-ion batteries, but they realize that the cost of setting up an anode plant in the U.S. is almost double that of India. We are talking about \$12,000 per ton as the capex, they are talking about 20,000 tons as their capex. So U.S. also relaxed their norms, and they have said that till 2027, they will allow Chinese imports into the country.

Now China has put a 13% duty on export of graphite material because it's just cross-border bullying happening on both the sites, because they want to export their products at a higher price and they want most of the product to be consumed within China. They've not banned it but they've put like 13% duty on the export of this raw material from China. The ban, I think, was more on natural graphite products from China, not the finished synthetic raw materials.

**Moderator:**

The next question is from the line of Gouri Malik from Desvelado Advisory.

**Gouri Malik:**

I would like to ask that as said earlier, the medium- to long-term optimistic outlook for the graphite electrode demand due to the decarbonization efforts. So could you please provide more details on your strategic plan to capitalize on this anticipated demand, which is likely to increase, especially with the potential for 200,000 tons of additional demand by 2030?

**Ravi Jhunjunwala:**

See, as I spoke about, about 100 million tons of new electric arc furnace capacities have been announced all over the world, minus China, we are talking of the Western world. And I believe in simple terms, 1 million tons of electric arc furnace today costs about \$1 billion. So \$100 billion of new steel capacities investments have been committed, and it is all over the world.

America is amongst the largest because unlike rest of the world, which produces about 40%, 42% of steel through electric arc furnace without China, America has always been at 70%. So they have been producing 70% of their steel through electric arc furnace, whereas the rest of the world is in the range of 40%, 42%.

So America was taking the lead earlier also because they were more focused on the decarbonization and environment and all. So now it is happening all over the world. So between Europe, U.S., Middle East and a little bit of South America and Africa, about 100 million tons of new capacities are already announced and they are all coming before 2030, out of which we have some fair data, fair knowledge about 60 million, 65 million tons, which is going to be operational between now and 2027.



So that is likely to give a boost to electrode demand to the extent of 100,000 to 125,000 tons in the next 3 years or so. And as you may have followed other graphite producers of the world, at least 3 or 4 European, American and the Japanese plants have been closed, all in the last 12, 18 months. They have announced closures of those plants because of current situation, risks, and all that and while we have expanded.

Of course, you cannot time the expansion perfectly, but we are not disappointed that we expanded and we spent INR 1,200 crores. It could have been delayed by 1 year, but nobody can time it exactly. So it's a matter of 2, 3, 4 quarters. Again, I cannot pinpoint when. But it is sure that the demand is likely to increase substantially.

And as I said in my opening remarks, I mean, we are the lowest cost producer. And since we have been exporting about 65% to 70%, not in the last 2, 3, 5 years, but for the last 25, 30, 35 years. So we have a fairly good reach in most of the countries which produce steel through electric arc furnaces where in most of the cases, we are selling to them. And these are the people who are either expanding their capacities or some new steel plants are coming. So we are fairly confident that as soon as this market changes, I hope as early as '25, we are the only ones who will have extra capacity of 20,000 tons to sell.

**Moderator:** The next question is from the line of Pritesh from Lucky Investments.

**Pritesh:** Sir, just one question. With respect to this anode facilities. So in India, based on whatever capacities have been announced by Exide or Ola factory or whatever is announced today by them and what is getting implemented on ground, what is the amount of graphite anode that these companies will need or the demand from India? .

**Riju Jhunjunwala:** So I mean, if you look at our source of information, it is only NITI Aayog. I'm not getting into what the BCG, McKinsey and all are kind of projecting. But the NITI Aayog really says that by 2030, we will have a minimum of 80 gigawatt hour to a maximum of 130 gigawatt hours of battery production in India. That would mean 1 gigawatt hour would mean 10,000 tons of anode requirement.

So you're looking at anywhere between 80,000 tons to 130,000 tons. And like my dad replied about what the graphite electrode business will be in the last question, the exact timing of that cannot be -- I mean, neither I can tell you, neither NITI Aayog can tell you, but we're talking about a range of between 80,000 tons to 130,000 tons of demand by 2030.

So when you extrapolate this graph from 2030 to 2040 which is a long time ahead, it increases even further drastically. But you've already had like this one, your Exide, which is on the verge of starting 5 gigawatt factory. Ola, I believe, already has a 3 to 4 gigawatt factory.

**Pritesh:** No, it's 1.5 gigawatt.

**Riju Jhunjunwala:** 1.5 gigawatt, yes. So this will keep changing from time to time.

**Pritesh:** So this 6.5 gigawatt, which is there, let's say between Exide and Ola, the 6.5 gigawatt hour mean how much anode requirement, 10%?

**Riju Jhunjunwala:** That would be 6,500 tons, let's say.



- Pritesh:** 6,500 tons.
- Riju Jhunjunwala:** 6 gigawatt would be 6,000 tons. So right now, their only source is from import. I mean, right now, they would be importing this from China or any other company. I mean, obviously, China has 90% of the anode manufacturing around the world. All this will be from China today, which ultimately, every company will have to move towards localization. And that's why they are doing very large pilot projects with companies like us that whenever our plant is up and running, they can change it from the current source to Indian sources.
- Moderator:** We will take the next question from the line of Shashank Kanodia from ICICI Securities.
- Shashank Kanodia:** I just wanted to check on your base graphite electrode business. So almost yourself and all your competitors are bleeding on electrodes, right? So -- and all your numbers are in the listed space as well. So, it's bleeding...
- Moderator:** Sorry, sir, your voice is breaking. I would request you to kindly use your handset.
- Shashank Kanodia:** So just wanted to check on your base graphite electrode business. So yourself and your peers are bleeding to the throat. And since these are listed, even your end customers are aware of the numbers. So what prevents us as an industry of taking aggressive price hike in the system to support our profitability?
- Puneet Anand:** We are unable to understand your question. Can you be more clear, please?
- Riju Jhunjunwala:** Just repeat the last sentence that you spoke about.
- Shashank Kanodia:** Sir, what prevents us to take aggressive price hikes in the system? So right now, I think you might be selling your graphite electrode at \$3500 a ton. So as the industry benchmark, can we scale up to \$12,000 per ton across sales?
- Ravi Jhunjunwala:** No, it is -- we are not -- we are one of the 5, 6 players in the industry. So arbitrarily, we cannot sell at a higher price compared to what our peers are selling at. And our peers are, as you know, they're sitting in Europe, America and Japan. So obviously, in a competitive world, I mean, you have to sell at the same price at which others are selling.
- Shashank Kanodia:** Even those guys are bleeding badly, right? Their cost of production even higher than ours. So as an industry, practically, all of us, all the peers' profiles are bleeding there. Can we take a collective price hike?
- Ravi Jhunjunwala:** How can we have a collective price hike? It's a competitive business.
- Riju Jhunjunwala:** I mean that would mean going to jail. I mean, if you're looking at something like cartelization, that is something that, HEG, as a company, we've never engaged in.
- Shashank Kanodia:** Break even of the EBITDA levels. Your competitors are bleeding the EBITDA level, right? So these numbers are there in the public domain for everyone to see.
- Ravi Jhunjunwala:** Yes, these -- I mean, that's exactly what I was saying that we are the lowest cost producer, and we have expanded. So as soon as the market shows some sign of improvement, which it is bound to because in



the last 40, 50 years, we have not seen even more -- even 20 million, 30 million tons of new electric arc furnaces being established in the world. .

And currently, we are talking about 100 million tons. And it has everything to do with the decarbonization because as you probably know, the same steel produced through the electric arc furnace versus blast furnace, the carbon emission is about 4x more in the blast furnace. So all that is happening in the last 2, 3 years on account of the realization of decarbonization and pollution and environment, which is a very good sign for our industry.

And as I said -- and as you rightly said, we are the lowest cost producer, and that is why we are still operating at 75%, 80%. I mean even in a bad market, despite our expansion, we just said that we hope that we will be able to maintain a level of 75% as compared to anybody else. I mean, I don't want to quote their numbers. They're all in the public domain. So we are by far -- in capacity utilization as well as in terms of operating margins and profits and everything, we are by far ahead of them.

**Shashank Kanodia:** And sir, can you please explain logic behind making equity investment in GrafTech? So doesn't that put all the eggs in one basket?

**Ravi Jhunjunwala:** I mean we have so much of investment. I mean, we have invested INR1,200 crores only recently and expanding our plant. And so it's a very well thought out investment that we have done because this is the only company, GrafTech is the only company in the world -- in the world of graphite, which is backward integrated. And we know all -- everybody knows what happened 5 years ago when the electrode prices went up by 5, 6, 7x and also the needle coke prices went up.

So they are in a very unique position that to take double advantage of whenever the electrode prices hot up and the electrode demand goes up, they are in a very unique position that they have their own coke and that is where they made a lot of money 5 years ago.

We are -- I mean, yes, you can never time the market. I mean you people know this much more than I know, but we are very, very bullish about it. And we don't see any problem. And whatever it is, it's a temporary reduction in the price. It's a matter of 2, 3, 4 quarters. I mean it will come back. And when it comes back, I should not be talking about my competitor, but we think that their prices will shoot up much more than our share prices just because they have a handle on their raw material.

**Shashank Kanodia:** Can you quickly quantify what is the level of write-off that's taken in other exchanges for this quarter on your investment?

**Ravi Jhunjunwala:** Can you repeat again?

**Shashank Kanodia:** The quantum of write-off if you take any other expenses for the investment ?

**Puneet Anand:** So it will be in between INR30 crores to INR31 crores.

**Shashank Kanodia:** And would it be more prudent to take it as an exceptional item? Because the listed space has never seen a parlance when it is taken to other expenses.

**Puneet Anand:** So this is as per the Ind AS and as per the auditor's suggestion.



- Ravi Jhunjhunwala:** So if you take the -- if you analyze our last quarter report, P&L, and if you take out the loss on the investment of the share, and then you compare it with all the other 3, 4 companies, they are all in the public domain. Then you will realise that our margins are still very healthy compared to all others.
- Shashank Kanodia:** So it was normal practice to take that part as an exceptional item or maybe resulted from other income?
- Ravi Jhunjhunwala:** No, no. You cannot. I mean this is the only way.
- Moderator:** We'll take the next question from the line of Saurabh Jain from Sunidhi Securities.
- Saurabh Jain:** Sir, on our anode prices, earlier, we were guiding for around USD 10,000 per ton. And now with the recent developments, we are guiding for USD 7,000 to USD 8,000 per ton. So how does it affect our EBITDA margins?
- Riju Jhunjhunwala:** So right now, I mean it's just a temporary blip right now, which you -- if you see at USD10,000 per ton, our EBITDA margin was coming to around 30%, 35%. And the same prices go down to USD 7,000, the EBITDA margins go down to around 20%. But then again, if we can make a move on our power prices and try and reduce them further, which is what we are trying to aim at right now, then even at USD 7,000, you make a healthy 25%, 26% EBITDA margin kind of a thing.
- And that's why, I mean, we've taken a little bit of time to cool off while everything is ready. But just trying to manage the single most important factor of the power prices. And if we can manage to convince the government not to implement kind of cost subsidy, banking surcharge, and we can go in for trying getting green power directly to our plant, then we are talking about some serious reduction in the power prices. So right now, that's what we are trying to aim at while continuing our efforts on product development, et cetera.
- Saurabh Jain:** Okay. And just a small clarification on one-off and other expenses was INR31 crores, right?
- Ravi Jhunjhunwala:** Yes.
- Saurabh Jain:** Okay. Sir, one last question on this show cause notice from GST for INR282 crores. So what is your take on the same?
- Puneet Anand:** We are currently evaluating it, and our legal team will be responding to the authorities. Prima facie the demand which has been provided and asked by the authority is not correct. We have already done one level of scrutiny about it and we are filing our reply to the authorities very shortly. We'll keep posted on the exchange for any developments on this front.
- Moderator:** Ladies and gentlemen, we will be taking last 2 questions for the day now. The next question is from the line of Aryan Sharma from B&K Securities. .
- Aryan Sharma:** Just one question. Could you guide us about your future outlook on the spread?
- Ravi Jhunjhunwala:** Future outlook on?
- Aryan Sharma:** On the spread, spread between needle coke prices and realization?



- Ravi Jhunjhunwala:** You said needle coke prices and?
- Aryan Sharma:** The realization -- graphite realization.
- Ravi Jhunjhunwala:** That is anybody's guess. I mean, it's -- we are in the open market, competitive market. Needle coke prices are always connected to the electrode prices. If electrode prices go down, needle coke goes down and vice versa. So it's very difficult to give a number to that.
- Moderator:** The next question is from the line of Gaurav Paul from Textiles Financial Services.
- Gaurav Paul:** Sir, I also wanted to ask regarding the pumped hydro. I remember in the last con call, there was some mention of it that you are also working in that area as well. So could you just throw some light what is the status and what is the market that we can see in this area?
- Riju Jhunjhunwala:** I think Mr. Ajmera on the call. He will be the best person to answer this.
- Ravi Jhunjhunwala:** Ajmeraji, are you on the line?
- Om Prakash Ajmera:** Yes, sir, I'm on the line. And with respect to the pumped hydro, last time what we discussed is that we were thinking of having some hydro scheme on our own project to Malana or AD, but some of -- the Government of Himachal Pradesh is now lagging behind to implement the scheme. So that scheme itself has gone into the back burner. So now we are holding this division.
- Gaurav Paul:** So are there some sort of -- I mean a regulation that blocks these sort of implementation. I mean what are the -- are there some environmental challenges and all. I just wanted to...
- Om Prakash Ajmera:** No. See, there are 2 kind of pumped hydro. One is the independent pumped hydro project, which can be done anywhere where you just have to have a water body. And what pumped hydro we are talking about only at our own plant where we are generating hydropower on a run-of-the-river scheme, where we had a plant based on the schemes released by the Government of Himachal Pradesh to add the generation and to have a pumped hydro scheme there, which we were planning to do as per the Government of Himachal Pradesh scheme.
- But somehow with the new regime there, they are not interested to carry forward this scheme anymore. So our application has been there and now we believe that this has been -- there is no such possibility now with the new regime being there. So the viability of that project is no more -- no longer is there.
- Ravi Jhunjhunwala:** I'll tell you. I'll tell you frankly, what is happening is...
- Riju Jhunjhunwala:** One second. If I can just add to that on the pumped hydro thing. I mean energy storage and going forward in the next 10 years is going to be one of the major challenges for India. And there, you have these 2 possibilities, either the BESS, which is the lithium-ion battery storage, or the pumped hydro storage.
- Now until last year, the capital cost for the lithium-ion battery storage used to be INR2.5 crores per megawatt, which has come down to INR1.3 crores per megawatt. So a lot of projects in which the BESS was financially not viable has suddenly become very viable for a company like RePlus, which comes under Bhilwara Energy.





So going forward, of course, we have all the experience in hydro; we have all the experience in design, development of pumped hydro projects if need be; and RePlus also being in the battery storage system. So if we have any opportunity going forward to kind of bid for a particular project, which involves pumped hydro and the energy storage system both, we will be in a very comfortable position to do that. And that is why the added focus on HEG Greentech Limited, where we'll be able to in the future, play a part, both in the battery side as well as the pumped hydro side, whether as an EPC contractor or as a consultant or whatever.

So I mean, today, both these things have become very, very attractive going forward. And any project that SECI is coming up with is requiring either pumped hydro or the battery-assisted solutions.

**Ravi Jhunjhunwala:**

I'll tell you what is coming in the way in Himachal Pradesh. I mean, we can easily put certain megawatts from hydro at both our locations. We have as I said, we have 2 locations in Himachal, one is 100 megawatt, another one is 200 megawatt. But in the process of generating power at these 2 locations, we are already paying 15% to 20% as the free power for using the water to the state to, let's say, the Himachal Electricity Board.

So Himachal Electricity Board wants another 15%, 20% free power out of this added generation of pumped storage. So after giving that 15%, 20% a second time, it doesn't remain viable. So that is what we are fighting with the Himachal Government, that they can't charge for the same water, 2x 20%.

**Moderator:**

Ladies and gentlemen, that was the last question in queue. As there are no further questions, I would now like to hand the conference over to Mr. Jhunjhunwala for closing comments. Over to you, sir.

**Ravi Jhunjhunwala:**

Thank you, friends, for very insightful details and very thought-provoking questions that some of you asked, both on the electrode side and on the battery side, and I look forward to continue to speak to you in the next quarter. Thank you.

**Moderator:**

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