HEG/SECTT/2020

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1	**BSE Limited** 25th Floor, P J Towers Dalal Street MUMBAI - 400 001. **Scrip Code : 509631**	2	**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**

Sub: Conference call Transcript

Dear Sirs,

With reference to captioned subject, we hereby enclose the transcript of conference call regarding Q1FY2021 results which was hosted by the Company on Monday, August 17, 2020 at 1500 hrs IST.

Kindly take the above information on record and acknowledge the same.

Thanking you,

Yours faithfully,
For **HEG Limited**

Vivek

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Encl: as above

"HEG Limited Q1 FY-21 Earnings Conference Call"

August 17, 2020

MANAGEMENT:	**MR. MANISH GULATI – EXECUTIVE DIRECTOR, HEG LIMITED** **MR. OM PRAKASH AJMERA – GROUP CHIEF FINANCIAL OFFICER, HEG LIMITED** **MR. GULSHAN KUMAR SAKHUJA – CHIEF FINANCIAL OFFICER, HEG LIMITED**
MODERATOR:	**MR. NAVIN AGRAWAL – HEAD INSTITUTIONAL EQUITIES, SKP SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the HEG Limited Q1 FY21 Earnings Conference Call. 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 the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Navin Agrawal – Head Institutional Equities, SKP Securities. Thank you and over to you, Mr. Agrawal.

Navin Agrawal: Good afternoon ladies and gentlemen. On behalf of all of us at SKP Securities, it is my great pleasure and privilege to welcome you to this financial results conference call with the leadership team at HEG Limited. We have with us Mr. Manish Gulati – Executive Director of HEG Limited along with his colleagues Mr. Om Prakash Ajmera – Group CFO and Mr. Gulshan Kumar Sakhuja – CFO. We will have the opening remarks from Mr. Gulati, followed by a question-and-answer session. Over to you Mr. Gulati for your opening remarks. Thank you.

Manish Gulati: Good afternoon, friends and welcome to our Q1 financial result FY2021 con-call. As you are aware we are going through COVID pandemic which is impacting most of the businesses. We have given top priority to the safety of our employees and put stringent controls in workplaces including social distancing, use of masks, sanitizing, extensive use of online interactions, and work from home etc. the result of that has been that there had been hardly any case at our facilities.

Now you see steel is closely linked to the GDP growth of every country. Steel demand has been seriously impacted in almost all the major steel producing countries of the world except China due to the COVID crisis. The World Steel Association in its recent short range outlook forecast that in the current year 2020 the world steel demand will contract by 6.4% and recovery in 2021 will be to the extent of about 3.8% and this short range forecast of course includes China. In last one-year the steel production has dropped by almost 25% excluding China, I mean in the rest of the world which is having an impact on Graphite Electrodes demand.

The electric arc furnace steel production was down in some of the large steel producing country in regions like Europe, US, Japan, Russia, Turkey besides India which is mainly resulting from slowdown in demand, trade tensions between US and China and other geopolitical tensions in some parts of the world. The Graphite Electrode inventory adjustment which was supposed to get over by the start of this year has got further delay due to reduced consumption.

Our results in the April to June quarter were impacted due to lower sales as our manufacturing facility was shut down for almost a month. Besides that, there was a lot of logistics challenges to contend with. Therefore, our capacity utilization was around 50% for Q1. Since the past year, the electrode prices have been sequentially dropping quarter after quarter to reflect the market conditions. We expect the pricing to remain under pressure for next 2- 3 quarters. And we expect the resurgence in demand from 2021 onwards once the impact of COVID subsides, hopefully and the remaining graphite electrode inventories get consumed.

Coming to needle coke; the needle coke availability has eased substantially, and the prices of needle coke have also come down, although they are still not in line with the current electrode prices. We have always been exporting about two-thirds of our production to more than 30 countries which helps us in diversifying the market risks. While we have seen the domestic graphite electrode demand dropping by about 50% in April to June, it is now set to improve with major steel companies increasing their production. We see a gradual improvement both in domestic and export markets going forward into the next quarter.

Electric arc furnace production has seen an approximately 3% CAGR over a long term of late say, 15-20 years. And we expect this to continue as EAF becomes the preferred choice of steelmaking due to its inherent advantages over blast furnaces like environmental considerations, mining restrictions, low carbon emissions, low capital costs, ease of operation, etc. So we are very much optimistic about the electric arc furnace industry. With our four decades of experience in business, we expect to be a supplier of choice to all our global and Indian customers. We have taken significant measures to manage our operations in this COVID crisis and ensure the strength and safety of our workforce and team members.

With this, I would now hand over the floor to our CFO, Gulshan, to take you through all the financial numbers. And then I, along with our Group CFO, Shri O. P. Ajmera, we will be very happy to answer any queries that you may have. Over to you, Gulshan.

Gulshan Sakhuja: Thank you. Thank you, sir. Good afternoon, ladies and gentlemen. During the quarter, the company's performance was affected due to lower volumes and realizations. For the quarter ended June 2020, HEG registered revenue from operations of Rs. 233 Cr and Rs. 374 crores in the previous quarter and Rs. 817 Cr in the corresponding quarter of the last financial year. EBITDA, including other income, stood at only Rs. 35 crores in Q1 FY21 versus Rs. 387 crores in the corresponding quarter of the last financial year. The company reported a net profit of Rs. 11 crores in Q1 FY21.

In compliance of lockdown instructions issued by the Government of India on March 23rd, 2020, the company temporarily suspended the operations of the company and resumed the operations from 23rd April, 2020. Since the lockdown was in force for a significant period of the quarter, the company's operations and the financial results for the quarter ended 30th June 2020 have been adversely impacted. The company has made a detailed assessment of its liquidity position and recoverability and carrying value of its assets comprising property, plant and equipment, intangible assets, right-of-use of assets, investments, inventory and trade receivables. Based on the current indicators of future economic conditions, the company expects to recover the carrying amount of these assets.

Presently, it is very early to assess the future impact of COVID-19 with a reasonable certainty. However, the company is operating its business by optimal utilization of available financial resources and also implemented the stringent cost-control measures across the organization to conserve cash. The company is a long-term debt-free and having a treasury size of nearly Rs. 1,280 crores, yielding an average return of approximately 7% per annum.

The company has not opted for the option provided RBI on deferred payment of interest on working capital facilities. The company has an adequate internal financial reporting and control system. The company is having a mechanism to continuously review and monitor its policies and procedures to adapt with a dynamic environment.

We would now like to address any questions or queries you may have in your mind. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sanchit Gupta from ICICI Bank.

Sanchit Gupta: I just want to ask this question that in Quarter 1 we haven't taken any inventory loss, is it?

Gulshan Sakhuja: Whatever the inventory loss that we have taken in the last financial year was based on the net realizable value that was prevailing at that point of time. In the first quarter of Current Financial Year, the impact was very insignificant.

Sanchit Gupta: And what do you think in the future might have been current next quarter? Do you foresee any inventory loss because needle coke prices are going down continuously?

Gulshan Sakhuja: NRV depends upon the selling price. In case if the current selling price continues to remain same, then we don't foresee any further hit to our profitability on account of NRV. In case if the prices come down versus our cost of production, then the NRV impact comes into the picture.

Sanchit Gupta: And one more thing, do you have any contract with needle coke that suppose you are going to purchase after this quarter, I think you have inventory of 6 months as I understand, so suppose after 2-3 months when you'll order needle coke, you will order on market price or do you have a past contract with needle coke manufacturer?

Manish Gulati: No, we do not have any remaining contract with needle coke manufacturers. Whatever like for one of the main grades, we have inventory provision up to December. And we are buying little quantities of the grades which we need, which is being done at market prices of today. And there's no past contract as such. They're all over.

Sanchit Gupta: And what about the graphite electrodes? Do you have a contract with the graphite electrode purchase or you will be having new contract? What is arrangement between you and your customer?

Manish Gulati: Everybody, if I would say, we do not have any significant contract lasting more than 3 months. So everything has become quite short term. Like, customers are also buying 3 months at a time. We are buying needle coke, whatever little quality we need of some grade here and there. We are also buying 3 months at a time. So there are no binding contracts either way. Neither we with our customers nor the coke suppliers have such agreements with us.

Sanchit Gupta: So the price of needle coke and graphite will match in coming months?

Manish Gulati: Yes, they should match. Eventually, they have to match. Otherwise, there will be no reason to be in this business. If the companies cannot make sufficient margins, then there's no point being there. So eventually, they have to settle down. The needle coke prices have to settle down in a way that toll provide sufficient spreads and for the business to remain profitable.

Sanchit Gupta: And one more question, like GE electrode price has come down significantly in last 4-5 months from January onwards.

Manish Gulati: Sorry, I didn't get the question.

Sanchit Gupta: GE price, graphite electrode price have come down significantly in the last 6 months.

Manish Gulati: Yes, true.

Sanchit Gupta: So do you see same level of price in coming months or it will improve going forward?

Manish Gulati: This COVID thing has only complicated the situation. If you look at the world steel production data, in fact, I have it in front of me, I can just tell you some of the names of the countries that see the impact which has been made. You see now India was down, the production was down 32%; Japan, down 21%; United States, down 32%; South Korea, 10.5%; Germany, 18%; Spain, 35%; Canada, 17%; France, 36%. So I mean these are all large historic data is all there. So this steel production as well as consumption has taken a big hit because of this COVID crisis. So once the impact subsides, I mean, we expect resurgence in demand because there's, of course, a pent-up demand. But everybody is watching carefully on how the situation develops.

Sanchit Gupta: And like needle coke is used for both graphite electrode and lithium ion batteries. So what do you see the impact of this needle coke on lithium ion because as electric-vehicle users will increase, so demand of needle coke there will also increase. So do you see any price increase going forward after 1 or 2 years?

Manish Gulati: No, the prime usage of needle coke will eventually remain graphite electrodes for the simple reason that lithium anode has many other options. They have mesosphere pitch, they have natural graphite, they have all kinds of things. So the battery will be made from a product which is eventually viable. And who knows, lithium battery, how long will it last because now they are talking about silicon. So this is a field which is in such a rapid development, so there'll be this tape come from probably a cassette to a pen drive. So this technology is under development. And of course, the future is with electric vehicles. But where eventually the battery is going to come from, which materials it will be made from? So graphite electrode will always be made from needle coke and for steel, there's no substitute to graphite. So needle coke will mainly be used by the graphite industry. As the prices will go up, the lithium electric vehicle market is very-very price sensitive. So they are going to watch every penny because the 35% of the cost a lithium vehicle is the battery itself. There's nothing to use other than the battery. So they will try to keep prices down for the battery. So they will keep looking for options and improvising and maybe ensure you have settled down at the perfect material which they have found. But for steel, it will always be electrodes and for electrodes, it will always be needle coke.

Moderator: Next question is from Dewang Sanghavi from ICICI Securities.

Dewang Sanghavi: My first question is regarding the demand perspective. While we have a muted second half also and maybe some part of CY21 also, when do we expect restocking to start from customers' end? Somewhere in mid next year or maybe a bit more delayed for that?

Manish Gulati: Surely by mid next year. I'm hoping that it starts in the beginning of 2021 itself. But you see, we have to see the long-term damage, which is being caused by COVID. The money getting sucked in by most governments, we'll see how many people will announce big mega infrastructure projects. So a lot remains to be seen. And the next two quarters will make the situation clearer. But surely, if normalcy or even a semblance of normalcy resumes, we expect that recovery to improve from 2021 onwards. Hopefully early but surely by mid-21, certainly.

Dewang Sanghavi: Mid-21 certainly?

Manish Gulati: Yes.

Dewang Sanghavi: Are we delaying our expansion or we are kind of with our normal schedule, the 80,000 to 1 lakh tons, what we are currently undergoing?

Manish Gulati: The expansion, I should make this clear that the expansion is certainly going to come. Now what we have is that we have the 1,000 people coming inside the premise to do the civil work, excavations, etc. We stopped them; of course, migrant labor also went back to their villages. And we also took a break from that. We said, there's no harm in just delaying it by 4-5 months and just being sure. For the expansion, the long-leased equipments are already ordered, already at the manufacturer, some of them are already on the way, so we will continue to receive them.

And we're just looking for the right opportunity to restart the civil work at our plant, which we had just stopped because of this COVID, we just stopped for the time being, but not invite too much of risk inside the plant where we already have 1,500 people inside and 1,000 more coming only for expansion. So our plan was to come with commercial production in early

2022, might be it will get delayed by 4-5 months. It all depends on the market condition. We'll be quick to start because the time which was to be taken by the long-lead equipments, that is already factored. That's already ordered.

Dewang Sanghavi: And the utilization, what we had in Q1 and what we expect for the balance part of the year?

Manish Gulati: I believe that Q1 was close to 50%. Q2 is certainly going to be better than Q1 and maybe around 55% or 60%. I hope that we can continue with that, but we should book here between 55% to 60%. That's how it seems.

Dewang Sanghavi: At the moment they will not be dumping from China, right, if I get that right?

Manish Gulati: The product will still continue to come in, although at a much-subdued level. But if we were to look at one year back, they were coming in large quantities. So that has dropped. But that is only because that we became aggressive in pricing because we wanted to keep our Indian customers. We didn't want to lose them completely to Chinese. Because India, for peak demand of India is 60,000 ton electrodes. Out of that 60,000, about 25,000 tons is the HP grade. This is not UHP. It's HP grade. That is where we compete with Chinese products. So that market was quite eaten away by China. And although we don't earn much out of that segment of business but we still want to keep our customers.

Dewang Sanghavi: On a broader sense, the spread, that is the difference between the GE pricing versus furnace and needle coke pricing that should sustain at around FY14-15 kinds of level now? What we had in at that particular time?

Manish Gulati: '14-15, I can look at the past. Yes, I think '14-15 was not bad. I think the worst spread we had was in, if I'm not mistaken, was '15-16, I think it was in '15-16. It has to return to the...

Dewang Sanghavi: That's a long term '14-15 which I saw so I thought I'd just ask the current price.

Manish Gulati: They have to return. See, this is not normal market conditions. What happened was the peaking in price '15-16 at $20,000 was also not normal. And what is happening now is also not normal. Right now, we are living with an overhang of inventory. See once that we flush it out of the system. So today, if we were to get needle coke at this price and sell electrodes at today's price, you would be making money. You would be making decent, decent profits. But we have to first get rid of this overbuying, which was done in 2019 with the hope that markets will continue to remain strong.

Dewang Sanghavi: And what was the net cash as on date?

Manish Gulati: That, Gulshan has said that it's Rs. 1,280 crores. And if you take out the working capital loans, it's Rs. 849 crores or Rs. 850-odd crores. Gulshan, please correct me if I'm wrong.

Gulshan Sakhuja: Yes. Its correct, sir. Its Rs. 1,280 crores gross. And we are having working capital borrowings of Rs.432 crores as on 30th June. So you can deduct the same and that would be net cash in our books of accounts. The gross cash is at Rs. 1,280 crores.

Dewang Sanghavi: Rs. 1,280 crores and 849 crores is the net cash.

Gulshan Sakhuja: Yes.

Moderator: Next question is from Rahul Jain from Credence Wealth Management.

Rahul Jain: Just to understand that global scenario with regards to other graphite producers, I believe I read somewhere that some of this top global manufacturers, some of the customers have not been happy with a leading producer of graphite electrode with regard to the pricing of the electrodes. Can you share some details or shed some light on this?

Manish Gulati: I didn't get the question clearly. Who's not happy? You said some customers are not happy. Where, in India or overseas?

Rahul Jain: No, no, I'm talking about this overseas, the global overseas customers have not been happy with refractory with regards to the pricing of electrodes.

Manish Gulati: Yes, but that has now come down like anything. They were maybe not happy when the price is at $15,000, but I'm sure they're now happy.

Rahul Jain: I was talking about the Graftech, who is a supplier of electrodes to some of the global customers where we also supply electrodes to them. Are some of these customers, because of this contractual pricing with electrode and the supplier not probably giving the right pricing policy, have not been happy with the suppliers. I was trying to understand, as the situation improves in next two quarters or so, based on this lever, can we expect some additional demand from some of the customers where we can gain market share?

Manish Gulati: Now I get your question. You're basically talking about this GrafTech long-term contract.

Rahul Jain: Yes, GrafTech long-term contract. Yes, sir, GrafTech.

Manish Gulati: Yes, because every time you said GrafTech, I heard graphite. So anyway, so yes, see, nobody is happy because with this GrafTech, what they did, because they took advantage of the situation at that time and forced the customers to sign off on their long-term contracts, which is take or pay at $9,000 for 5 years. So 5 years, I mean, nobody wants to get stuck. Even if we get a deal tomorrow needle coke suppliers come and ask HEG to put our signature for 5 years, we'll be very scared to do it. Because you never know, 5 years is way too much time to have some visibility. So now customers are badly stuck with them, although they did get some advantage over the first 2 years when they've got supplies.

But now with falling prices, they're very much upset. So what has happened which you correctly noticed was that most of these contracts are going to get over by end 2022. So many customers are going back to GrafTech and asking them to renegotiate on pricing. That's what we hear from the market. I don't have any authentic information on that. But yes, it's true that once customers free up, free themselves up from this long-term contract that demand will come out in the open market which can be catered to by other suppliers also. Right now, those customers who signed up are bound to execute those contracts.

Moderator: Next question is from Bhavesh Chauhan from IDBI Capital.

Bhavesh Chauhan: I just want to know the prices of graphite electrodes today versus 2015-16 lows, how do they compare?

Manish Gulati: You see the prices of today are still higher than the lowest levels the industry has seen. But at that point in time, the needle coke prices were also at the lowest that we have seen. So today, of course, even the current market price of needle coke is still higher than their lowest. And electrodes are also higher than the lowest point.

Bhavesh Chauhan: According to you, sir, what should be a normalized EBITDA per spread, how much it should be?

Manish Gulati: Gulshan, do you want to answer this? I mean normalized EBITDA is so much dependent on market condition. And really if you have seen our EBITDAs go up and down the highs and lows. So Gulshan, you want to answer this question?

Gulshan Sakhuja: I'm coming to that, sir. If you see 5-6 years back, we used to have EBITDA in the range of 20%-25%. And after that, EBITDA has fallen from 25% to 10% in the year '16-17. And then we had a sudden jump in the prices and we had EBITDA of 70%. It's very difficult to say what is the definition of normalized. It is a factor of selling price and the coke price. See, the spread determines your EBITDA because our fixed cost is normally the same, if you see in last 6-7 years, it ranges between X to X delta. There is hardly any change in fixed cost. So only the spread would determine this normalized EBITDA.

Manish Gulati: I'll just add to what Gulshan said. See, the industry has seen the highs I mean we have seen the highs of 70s and the lows of 10s. So I don't know what normalized means. I think 25%-30%, that is fine. That is good business. I mean if we compare our EBITDAs to our customers, what kind of EBITDAs the steel companies have, then of course, 25%-30% should be fine. You can look at the company's history for the last 40 years, it's been hovering around that, going up and down every few years, hitting the bottom, then righting again. But what happened 2 years back was unprecedented when it went up to as high as 75%.

Moderator: Next question is from Rahul Jain from Credence Wealth.

Rahul Jain: With regards to China, as we speak today, how is the competitive intensity from China as in current time or in today's time?

Manish Gulati: The HP grade which we have, which is not the big-size electrodes, yes, of course, there's competition, that's about 25% of our business. That is where we have to work with very low prices, very low margins. But in the ultrahigh power grade, we still have an edge because we're not comparing apples with apples. Our product is definitely better. And the steel companies have more factors to contend with. With electrodes comprising only 2% to 3% of their cost, nobody wants to take a chance with productivity so nobody wants a breakage. Nobody wants to lose out on production. So that is where the quality factor comes in.

For the smaller sizes, it's not a problem. And some of the electrodes don't break. They are fine. But in the ultrahigh power grade, we still have the technical edge. We are making the right quality and we are comparing ourselves with the industry majors which are the generalist producers and this American company, GrafTech. So that's where we are falling in competition. Now this Chinese electrode if they come in the market with 35%-40% cheaper prices and 20% worse consumption. Some customers are tempted to buy, but they don't offer that kind of consistency. The steel plants don't need too much of problems as far as their furnace operations are concerned.

Rahul Jain: You mentioned in a previous participant's question that if we speak in terms of today's prices of needle coke and graphite electrode, assuming that you are buying needle coke today and selling graphite electrode for today, with no inventory overhang count at either side, so you would make decent profits. Can you just share some details in terms of the spreads which are prevailing today?

Manish Gulati: This, we will always shy away from doing it. But you can figure it out. It's not difficult. I mean you can just look at the last 2 years' results and you'll figure out what makes a healthy spread. There's enough data. Again, but I cannot be doing that on a con call.

Rahul Jain: No, no, I'm not talking about HEG in particular, sir. I'm talking about the industry. I was not talking about just for our company.

Manish Gulati: See industry it is very easy. I mean GrafTech has very healthy EBITDAs. Why, because they sold 60%-65% of their product on LDS. The different countries are having different procurement prices and different costings. The Japanese have a different fixed cost. The American plants have a different fixed cost. We have a different fixed cost. So I mean I'd like to dodge this question of spreads. But you can figure out. It's not difficult.

Rahul Jain: But incrementally, we are making good money both on the cost of material and cost of finished goods, is that correct assumption?

Manish Gulati: Sorry, incrementally?

Rahul Jain: Incremental revenues and incremental costs at today's price will help us to make decent profits.

Manish Gulati: Yes.

Rahul Jain: With regards to the previous cycle we saw because of this environmental clampdown on China and the shift to EAF-rated used demand, and as per your presentation, it says that China was supposed to go to almost 20%. But it has not been moving in that direction. So maybe not as specific today but going ahead how do you feel, do we get some sense of what is happening over there? So today, it's almost 10%. It was supposed to be 20%. We are far away from that.

Manish Gulati: Yes, we are far away.

Rahul Jain: But do you see over the next 1 or 2 years that momentum will gather? Can we get that?

Manish Gulati: What I understand is, definitely they have not abandoned the policy of shifting to EAF. In fact, China remains the only country in the world which has 10% of electric arc finances. And as their economy develops, and they have been in development for the last 30 years and 40 years, and steel comes for recycling, definitely, they will need new electric arc furnaces. They'll eventually catch up. And if you see the last 2 years, they actually did it. They came from 50 to 108, they were very fast. They did it in 2 years. And then they again started pushing their blast furnaces because still the cost of production via the EAF route is slightly more in China. So they still continue to push their blast furnaces which they have. But they have not abandoned the long-term policy of making 20% of steel through the electric arc furnace route. They will eventually catch up with the rest of the Western world.

Rahul Jain: So basically, with regards to the demand side from electrode for our graphite electrode, two things we need to track. I think at present, what we need to track is the demand from the rest of the world, more specifically in Europe.

Manish Gulati: Yes.

Rahul Jain: So if European steel market does well, that can be the first pointer to us as a division or layman who's tracking the company that things are changing.

Manish Gulati: Yes. This is definitely important. Because you see, right now even the automotive demand in Europe is terribly hit. You look at what ArcelorMittal has to say in their presentations, so they're also talking about the same thing. In fact, ArcelorMittal had to shut down a few blast furnaces in Europe just because of the slowdown in demand. And whenever you shut down blast furnaces, these decisions are very thoughtfully taken because it takes hell of a money to stop it and hell of a money to restart a blast furnace. It's not like an electric arc furnace and the plant manager decides, today, we'll make so much steel. It's okay. Instead of 18-inch, let's make do with 9. So they immediate cut off 50% production. But blast furnace is not like that. So they definitely, what you said is absolutely correct that Europe has to see some resurgence of demand for steel coming from automotive or construction.

Moderator: Next question is from Saravanakumar Nagaraj from Varthaga Madurai E Services.

Saravanakumar Nagraj: So what would you expect CAGR growth for the next 5 years for HEG?

Manish Gulati: Your voice was not clear.

Saravanakumar Nagraj: What would you expect CAGR growth for the next 5 years for HEG Limited?

Manish Gulati: I'll repeat your question to make sure that I have correctly understood. So you're saying what is the growth of HEG over the next 5 years. Is that correct?

Saravanakumar Nagraj: Yes.

Manish Gulati: Thank god I got the question. So you see, we are very optimistic about our industry in which we operate. And I'll tell you the reason. The reason is simple. The electrical arc furnace deal, if you look at in the last 25-30 years' data, there has been a CAGR of 3%. So that is what makes us believe in our industry. We have absolutely the state-of-the-art plant. We have the right quality, which competes with the best product in the world. So we are confident about our product. We're confident about our company. But yes, in this business environment, if there are Japanese, if there's this American company, GrafTech, it's HEG and our other Indian company, we will do fine.

Now time and again, this question comes, China this and China that, and what will happen and then all gloom, all over. No, it's not like that. It's not that only China will remain and the rest of the world will perish. No, it is never going to happen like that. We have good quality. We have low cost. We have low-cost plants. We have a large plant at one location that helps us in keeping our fixed cost down. We have very good market spread. We are present in 30 countries, including India. So we are very optimistic. And as I said, we are putting in so much money to bring up our expansion. So we have not lost faith in the product or the industry or in ourselves. So I personally see very good times, let's not say very good because of thanks to COVID. But yes, I do foresee good times ahead for HEG and this industry.

Saravanakumar Nagraj: Can you tell about some numbers?

Manish Gulati: Numbers?

Saravanakumar Nagraj: Yes. After post-COVID.

Manish Gulati: Okay.

Saravanakumar Nagraj: Maybe randomly, can tell like graphite in India, like industry, not for HEG.

Manish Gulati: No, industry is going to see growth. And definitely, I'm sure that when our expansion comes, that tonnage will also get absorbed in the market because these are not normal times. And if you're asking me a projection for next 5 years, whatever you said even 1 month back looks too old today. So we'll just go with the basics. The fundamentals are there. We have a quality product. We have a great cost. And this is a growing industry because steel is definitely going to keep coming up for recycling. There's a shift from blast furnace to electric arc furnace, which is very clear. So the more we would go towards low carbon emissions, so of course, the blast furnaces won't come. I mean eventually that extra demand will be met by electric arc furnaces.

Saravanakumar Nagraj: So what about our self-reliant India advert help for graphite electrode?

Manish Gulati: Oh, yes. Now this we have told the government that, because they asked us about our product, we told them this is a product where we have 160,000 tons capacity in India. And even the peak demand is only 60,000 tons. And we have 100,000 tons capacity available to export, and which we are doing to more than 30 countries, including U.S., Canada, Mexico, all of Europe, all of Southeast Asia. So this is one product which fits very well into the Prime Minister's call for Atmanirbhar Bharat. I mean the steel companies here in India have two giant companies in India who can provide them the right quality, all kind of sizes they need from technical support, very short delivery times. So what else, if our product doesn't make it to Atmanirbhar Bharat, then nothing else does, clearly. We don't really need any cheap quality imports to come from China and dump here in India.

Saravanakumar Nagraj: And another one question on finance. So what about the free cash flow?

Manish Gulati: Free cash flow? That's our CFO, Gulshan, just explained that.

Gulshan Sakhuja: Free cash flows as on date is invested in AAA bonds paper in the market, in a debt market and in the form of Fixed Deposit with the banks.

Saravanakumar Nagraj: So for debtors, actually, recently, I have seen that interest coverage ratio is actually going negative so due to the previous loss. So I think it is volatile on this graphite electrode market and maybe actually, you are hinting already for next 2 to 3 quarters, it is growing very slowly. So how would it impact on debt?

Gulshan Sakhuja: We are long-term, debt-free organization. We don't have any long-term debt in our books of accounts. We are having only working capital borrowings, which is required for day-to-day operations like money blocked in a form of debtors or in the form of WIP, FG and raw material. We require working capital loan from the bank to run our day-to-day operations. As far as our treasury is concerned, it is Rs. 1,280 crores and net cash balance of Rs. 849 crores in our books of accounts.

Saravanakumar Nagraj: What I'm asking, actually, we are happy to note that HEG is a debt-free company. But in the short term, how would it impact due to COVID?

Manish Gulati: That we already explained.

Saravanakumar Nagraj: You're already aware of cash available. Sorry for that.

Manish Gulati: No problem. In short term, about this COVID, if you're asking, they were saying that our plants have been shut down for almost a month, so it did impact our sales. There are so much of logistics and transportation challenges also. So that is the impact. And we are doing better this quarter compared to last quarter.

Moderator: Next question is from Dewang Sanghavi from ICICI Securities.

Dewang Sanghavi: Just a bookkeeping question. I just wanted to know the CAPEX what have we planned for the current financial year and how much we have incurred in Q1. And can you just break it between sustenance and growth CAPEX?

Manish Gulati: The outlay was Rs. 1,200 crores. Now if you want to know exactly how much money we have spent out of that in '19-20 and this quarter, Gulshan, do you have the figures ready or can we tell him later?

Gulshan Sakhuja: We can let him later on, sir. Dewang, if you see the balance sheet, the cash flow happened in the last financial year is approximately Rs. 200 Cr. We have already paid it.

Dewang Sanghavi: I just wanted to know for the current financial, what we are planning and how much we have incurred in Q1. But I will get back. No worries on that.

Gulshan Sakhuja: In the current financial year, whatever the LCs, we have already opened. And we have the commitment to honor that all LCs. The approximate amount would be in the range of Rs. 150 to 200 Cr. So the total outflow in next 12 months, including the CAPEX that had already happened, would be around Rs. 400 Cr.. Rs. 200 crores last year we did and this year, we are expecting around Rs. 150 to 200 Cr of the LCs that we have already opened.

Dewang Sanghavi: Last year, CAPEX was RS. 200 crores and this year will be Rs. 150 to 200 crores. Did I understand it correct?

Manish Gulati: Correct. That's right. That's right.

Gulshan Sakhuja: And after that, we would take the call, see how we have to proceed further based on the current market scenario, so we have been continuously monitoring the market situation.

Dewang Sanghavi: And secondly, were we FCF-positive or CFO-positive for the Q1 quarter?

Gulshan Sakhuja: Yes, it's a positive because we are having that liquidation from inventory and realization from debtors, and we are having the other income also in our books of accounts.

Dewang Sanghavi: But there is a working capital reduced in the quarter, that's what I was...

Gulshan Sakhuja: Yes. If I talk about March '20 to June '20, we have paid off Rs. 200 crores of our working capital. And that money has come only from the realization of debtors and liquidation of the inventory. There was a reduction of approx. Rs. 160 Crores in working capital borrowings as on 30th June 2020 vs 31st March 2020.

Dewang Sanghavi: I'm sorry, I think I lost your line in between.

Gulshan Sakhuja: As on 31st of March, we were having a working capital loan of Rs. 592 crores. That has come down to Rs. 432 crores approximately on 30th June. So we have paid off Rs. 160 crores and that money has come from the realization of debtors and the liquidation of inventory that was sitting on 31st March, 2020 balance sheet.

Moderator: Next question is from Sunil Reddy, an Individual Investor.

Sunil Reddy: I have a question on the same lines of Mr. Dewang Sanghavi has asked. Will there be a possibility that we would have to consume the money which we have put in the bonds, right? Do we need to take that out from supporting this expansion capacity by any chance or will it be completely based on the profit as we initially thought of?

Gulshan Sakhuja: If you see this current year cash flow, that is going to be generated from realization from debtors and from the liquidation of inventory. That is going to give a cash inflow of approximately, we can say, in the range of Rs. 400 to 500 crores that is going to be released in this financial year. Thus there would be incremental treasury to the tune of approximately Rs. 400 to 500 crores and out of that, we would make Rs. 200 crores of the CAPEX payment that we have already committed on account of LCs which had already been opened. So if you see the net position as on 31st March 2021, it would be better by approximately Rs. 200-250 crores vis-à-vis last financial year situation.

Sunil Reddy: I'm looking a year ahead because this year, I think we would not expect major profit. So there is around Rs. 1,200 crores is what we planned. So I'm thinking that if 800 more to be spent for the next financial year. I'm assuming it's very unlikely it will come from the profits. So will there be any other areas of funding we would be looking at?

Gulshan Sakhuja: So further cash outflow of Rs. 800 crores to fund this CAPEX plan from 80,000 mt to 1 lakh mt, it depends upon a lot of factors. The current economic factors are being reviewed continuously. We would see how and when to further incur the unspent amount on this expansion plan. So once the market improves, definitely, we would take the call of when to spend the money. We have been monitoring the economic factors and the expansion closely. Manishji, would you like to add?

Manish Gulati: I've said this in the beginning also that inventory will come. But the timing, we'll pick and choose because next year, of course, what the question was whether we'll generate enough cash from our regular operations. So there, we are talking about '21-22, definitely, the hope of markets to get better and to be able to generate enough cash to pay for the expansion. That's what both of us meant. So we are just timing is right but the expansion is surely going to come because we have ordered all the long-lead equipments.

Sunil Reddy: So which means it won't reduce any of the current cash standing, but we would only time it as per the improvement in the market conditions?

Manish Gulati: Yes, absolutely correct. Absolutely, this is exactly what we meant.

Sunil Reddy: So there could be a delay in worse scenarios, which is okay.

Manish Gulati: Yes. That's the worst actually, but it will surely come.

Sunil Reddy: And this cash which we have invested, are they going to continue to be in this debt investments? Suppose the good times start coming again and we start generating more cash, would this be the first mode of investing the cash by HEG or are there any other ways the cash is going to be invested?

Gulshan Sakhuja: Our first choice is to use this cash towards for the purpose of expansion. And in the current economic scenario we are not foreseeing any other opportunity in the market. So whatever the cash would generate, that would be used towards this expansion only. And whatever the cash is left after that, would remain in the form of fixed deposits or in AAA bond paper.

Sunil Reddy: So that is a long-term strategy, or any extra cash would be invested only in these bonds. There are no other active opportunities possible because I remember Graphite India invested in some product called Graphene. I mean I don't have much knowledge. But are we looking at some other new ventures or new areas to take this cash forward, any long-term plan or thoughts on that?

Manish Gulati: This is a very dynamic situation. You're right that they've invested in a small company there to buy some 46% of that in General Graphene Corporation or something. So we also keep looking at similar related products to carbon. But as of now, as we speak, we do not have any such plan.

Sunil Reddy: Can you share a little more details about that other income, which we are quoting today? How are we accounting these returns on the FMPs we have, the bond papers we have?

Gulshan Sakhuja: **Majority portion of** other income majorly comprises of the income from treasury, i.e. the investment income.

Sunil Reddy: So then whatever returns we get from this bond A papers, when would they come into accounting?

Gulshan Sakhuja: It is accruing every quarter because treasury comprises of short term also and long term. Short term in the form of FDs with the bank and long term in the form of fixed maturity plans. So whatever the income that is accruing on a long term, is being included in the books of accounts. And once that FMP gets matured, we would get the full amount including interest...

Sunil Reddy: So it's compounding right now. It's not paid?

Gulshan Sakhuja: Yes. Company's treasury comprises of both elements, long term and short term. Short term is for less than 1 year and long term, more than 1 year. For more than 1 year, income is being accrued in the books of accounts on the basis of a fair valuation or on the basis of NAV that is quoting in the market.

Sunil Reddy: So if there is a disruption in the bond market, so it can happen that we would show some loss at some stage, today let's say we are accounting 7%?

Gulshan Sakhuja: No. It would not happen. The reason being is that all fixed maturity plans are of 100% AAA category. Further fixed maturity plan has a certain rate of interest yielding on that. Example, FMP of any particular mutual fund is having a return of 8%-8.5%. So I would get this 8%-8.5% 1 year down the line or 2 years down the line when this FMP gets matured, until and unless there is a default in the underlying paper of that FMP. But we don't foresee anything because we are having 100% AAA category FMP's.

Sunil Reddy: So in some sense, this Rs. 1,200 crores would add around an 8%, good Rs. 100 crores profit per year it keeps adding to the...

Gulshan Sakhuja: You can say Rs. 80-90 crores because in the current scenario, if you see that rate of interest has come down. So it is very difficult to get a better yield in the market by deploying your money into the AAA category.

Sunil Reddy: I mean even 8% is a big number today.

Moderator: Thank you very much. As there are no further questions, I will now hand the conference over to Mr. Gulati for closing comments.

Manish Gulati: Thank you, friends. Thank you very much for joining this call. And we hope to meet you again with the Quarter 2 numbers, hopefully which will be better than this one, at least on the volumes front. So looking forward to meeting you again. Thank you.

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