# **Operator**

Ladies and gentlemen, good day. And welcome to the Q4 FY12 Earnings Conference Call of HEG Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Janki Dholakia from CDR India. Thank you and over to you, ma'am.

#### Janki Dholakia

Thank you, Marina. Good afternoon. Welcome to HEG Limited's Q4 and FY12 conference call.

Joining us today on this call are Mr. Ravi Jhunjhunwala, Chairman and Managing Director and Mr. Manvinder Singh Ajmani, CFO of HEG Limited.

We propose to begin the call with some opening remarks from Mr. Jhunjhunwala followed by operating and financial highlights by Mr. Ajmani.

Before we begin, I would like to mention that some statements made during this call may be forward-looking in nature and may involve risks and uncertainties. A disclaimer to this effect has been sent to you with the conference call invitation. HEG's financial performance details have been provided to all of you in advance and are also available on the Company's website.

I would now like to invite Mr. Jhunjhunwala to share his perspective on HEG's performance for the fourth quarter and year ended 31 March, 2012. Over to you, Ravi.

## Ravi Jhunjhunwala, Chairman and Managing Director

I presume you have got the copies of financial results and the presentations with you. I would like to start by sharing with you a momentous occasion of the LNJ Bhilwara Group celebrating its Golden Jubilee end of 2011. The Group has proudly served the community for the last 50 years offering the best in textiles, graphite electrodes, power generation and power consulting. With over five decades of experience coupled with modern state of that technology the Group has successfully executed our Chairman-Emeritus Shri L N Jhunjhunwala's vision for a multi-product quality driven global looking conglomerate.

HEG itself has been part of the Group since 1972, thereby completing about 40 years since incorporation now. Our graphite electrodes facility was set up in 1977 and has since grown into a fully functional 80,000 tons capacity plant. We are proud that ours is the worlds largest single side manufacturing facility.

Now I would like to turn the current world economic situation, the steel sector and HEG's operating highlights. As you all know currently the world economic situation is looking very uncertain, growth is uneven across the world economies and the outcome of the government initiatives towards recovery is still unknown. While the U.S. is showing signs of growth, the year Eurozone still continues to be rooted in deep recessionary conditions.

Emerging markets meanwhile have been regaining some of the loss momentum. Overall, it's a mixed bag with cautious optimism for the rest of the year.

Now, moving on to the steel sector. The world crude steel production for quarter one calender year 2012, increased moderately by about 1.1% at 337 million tons over the corresponding quarter last year. Similarly, 2011 steel production was 1,527 million tons which was a healthy 6.8% higher than 2010.

Current year 2012 is expected to see an increase of around 4.5% to 5% over 2011. The electric arc furnace root of steel production is expanding at a healthy rate worldwide. The electric arc furnace steel production increased to a all time high of about 440 million tonnes in 2011 and increased of a healthy close to 8% over 2010.

We have observed in the recent times that there has been a conscious shift from blast furnaces to electric arc furnaces and this boards well for our industry in the future. Now, moving on to the company's performance. In the quarter under review we started commercial production on the expanded capacity and the progress so far has been successful. The expanded capacities have now stabilized and we are able to produce at full capacities. As regards our key raw material needle coke we are very well placed including our expanded capacities. As for the second key raw material electrical power you are all well aware that we already have enough captive power capacity for our complete expansion of about 80,000 tonnes.

The capacity utilization during the quarter was between 85% and 90%. The annual capacity utilization has been close to 90% on adjusted expanded capacities.

Since the beginning of the year, we have been executing some of our graphite electrode orders at high prices. However, the benefit of the price increase is being partially offset by higher needle coke and other higher domestic costs.

Given an uncertain economic conditions in Europe, the order book is lagging behind compared to previous year. We are however booked to the extent of about 55% to 60% for the whole year. We do expect to achieve a capacity utilization of about 85% for the full year. The current orders in hand do contribute to some additional margins. But as we are still dependent on 40% to 45% of the new orders which are still to be obtained we are unable to give a more accurate outlook for the full year in terms of margins.

As you are fully aware, hydro is a seasonal business and this plant operated for about 40 days in the current quarter. The generation from hydro plant for the year was normal. The temporary shortfall which we saw in linked coal in the quarter four led to lower profitability for thermal power units.

Going forward, we hope to witness a stable operation in the power business as the linked coal receipts have now become fairly normal. Despite a not too optimistic world scenario in the short term I still believe our recent expansion I would now invite our CFO Mr. Ajmani to take us through the financials, and then we will move on to the question and answers. Thank you.

## Manvinder Singh Ajmani, Chief Financial Officer

Thank you sir. Good afternoon everyone, I will now quickly run you through the financials and then we can move on for the Q&A.

Our Q4 FY12 net revenues were higher by about 45% at 407 crores as compared to 282 crores in the corresponding quarter. Q4 FY12 EBITDA rose by 18% at 76.8 crores as compared to 64.9 crores in Q4 FY11. Moving on to the performance of our two main divisions, graphite electrodes and power revenues of the graphite electrode division for Q4 increased at 46% or 400 crores as compared to 275 crores. The PBIT of the division was higher by 55% at 48 crores as compared to 31 crores due to higher volume and the realizations at optimum capacity utilization. Domestic cost continued to increase and have seen a corresponding impact on the margins. Graphite electrode prices have been rising but are the partially offset by the higher prices and rising domestic cost.

Now for the power division the Q4 12 revenues are flat at 54 crores as compared to the corresponding quarter. The PBIT or the power division was at 9.2 crores in Q4 as compared to 18.7 crores in Q4 FY 11. As you aware the hydroelectric power plant is not function during the, due to season nature, higher coal cost and short term reduction in coal supplies for linkage route led to the lower profits. The linkage coal supply has been restored to normal levels. Interest costs were higher by 56% at 12.9 crores as compared to 8.3 crores, due to increased debt and to finance the expansion project and somewhat increased spreads later being or account of tighter liquidity situation. We have incurred a ForEx loss classified as an exceptional item on account of extreme volatility in foreign currency rates.

The FX loss is attributable to losses on hedging positions taken earlier and currency fluctuations on foreign currency borrowings. A hedging reserve of 26.92 crores has been created with respect of FX fluctuations on unmatured hedging positions. The Q4 FY12 PAT was 5 crores as against 34.4 crores, this results in a basic EPS of 1.2.

Moving on to the full year performance, net revenues are higher by 28% at 14.24 crores as compared to 11.37 crores, 11.13 crores, I'm sorry. EBITDA for the full fiscal year increased by 5% at 258.6 crores as compared to 247 crores during the previous fiscal. PBT was 160 crores from 168 crores.

Net revenues of the graphite division grew by 29% at 1,395 crores as compared to 1,079 crores. PBIT of a graphite electrode segment marginally increased by 2% at 142 crores from 140 crores.

Net revenues of the power division were higher by 10% at 216 crores PBIT of the power segment grows at 5% at 48.7 crores. Fiscal year PAT stood at 62.3 crores as against 128.9 crores. As regard to dividend the Board has recommended payment of dividend at a rate of Rs. 5 per equity share of Rs.10. Overall HEG is looking good operationally and we are confident of delivering a healthy performance based on - roots, and enhanced realizations. We are assured of key raw material supplies and given the expansion as in place we are poised to benefit from the incremental demand for our products.

With this I would like to conclude my opening remarks and we can now move on to the Q&A session. Thank you.

# **Questions And Answers**

# **Operator**

Thank you very much sir. Ladies and gentlemen we will now begin the question-and-answer session. [Operator Instructions]. The first question is from Chirag Setalvad from HDFC. Please go ahead. Hello.

## **Chirag Setalvad**

Good afternoon.

# Ravi Jhunjhunwala, Chairman and Managing Director

Good afternoon, Chirag.

## **Chirag Setalvad**

Could you tell us the average realizations which you had in the fourth quarter and the average cost of needle coke. And for next year what -- does the Company expect to be the increased gross contribution? So the increased realization subtracting the increase needle coke price?

## Manvinder Singh Ajmani, Chief Financial Officer

Chirag, as a policy we do not give a specific revenue numbers, in terms of specific pricing and cost details.

### **Chirag Setalvad**

Well, sir what I wanted to understand is broadly is the Company expecting an expansion in gross margin in dollar terms next year? And up to, if you can give some indication in a broad range as to what that could be?

## Manvinder Singh Ajmani, Chief Financial Officer

See, there has been some improvement in the graphite electrode pricing, as the Chairman has already explained in the remarks, that are likely to be significantly offset by the increasing needle coke cost. However we have needle coke inventory which is an addition to, which we are carrying opening needle coke inventory which is additionally to normal requirement about three to six months. So that should help us improve our margins going forward.

#### Chirag Setalvad

Right. And what could have been the average realization this quarter sir, would you be able to tell us that?

# Ravi Jhunjhunwala, Chairman and Managing Director

Chirag I'll give you a flavor of what you are talking about without getting into very specific numbers. If you compared the first quarter of last year versus let's say the last quarter which is the January March versus the April June of last year. The revenues are quite on sales prices have gone up by little over 10%. And we expect -- and our orders as I said we are booked to extent to about 55% to 60% for the coming 12 months. So those are more or less at that level of about 10% to 12% higher than our last year's average. Right. But most of that sir would be taken away by the increase needle coke prices and other?

### Ravi Jhunjhunwala, Chairman and Managing Director

Not all, see we are carrying a fairly substantial quantity of stock of needle coke at old price. So that will come to our rescue to some extent which is pretty substantial. And so to that extent that will help us I mean, let's say we are holding inventories which are between \$300 to \$400 cheaper than the current prices of needle coke.

### **Chirag Setalvad**

Perfect. Thank you very much, sir.

## Ravi Jhunjhunwala, Chairman and Managing Director

Thank you.

# **Operator**

Thank you. [Operator Instructions]. The next question is from Ashutosh Tiwari from Equirus. Please go ahead.

#### **Ashutosh Tiwari**

Yeah hello sir. Sir the last time in the con-call you said that electrode paces have increased to 15% odd. So is that quantum or anything change over there? Thank you.

# Manvinder Singh Ajmani, Chief Financial Officer

Last time I think we indicated that the graphite prices are expected to go up. But for the coming financial year by 12% to 15% and obviously that we qualified that by particularly stating that it will depend upon the overall global steel outlook.

### **Ashutosh Tiwari**

Yes. So you said that you only book for 55% to 60%?

## Manvinder Singh Ajmani, Chief Financial Officer

Correct

## **Ashutosh Tiwari**

As of now, those are bookings I have seen 12% to 15% price increase or? No, on this 55%, 50% as I just said it's about 10% to 12% higher than last year. We are still open to the extent of the balance 40%, 45%.

## **Ashutosh Tiwari**

Okay.

# Ravi Jhunjhunwala, Chairman and Managing Director

And that's where the uncertainty is coming in. And nobody has realized the kind of recessionary conditions Europe is going to face. And given whatever is happening, whatever has happened in Europe in the recent past in terms of the three or four political changes which we have seen in the last two, three weeks.

So that's why we said in my opening remarks that more accurate number is very, very dangerous to make at this stage. Europe is really a very very big blind hole.

#### Ashutosh Tiwari

Okay. So, I mean over last three months in order bookings have you seen a decline in the earlier 15% high, your probably booking, and now you have seen some decline is that a trend or what is it..

## Ravi Jhunjhunwala, Chairman and Managing Director

No we haven't seen a decline but the order bookings have substantially slowed down.

### **Ashutosh Tiwari**

Okay.

# Ravi Jhunjhunwala, Chairman and Managing Director

And when I'm saying substantially slowed down they have slowed down in terms of time being. I mean earlier let's about three years ago practically everyone was buying on an annual basis, and then lot of these customers started buying on a six monthly basis. So, specially in Europe today because of a very poor visibility in the steel sector nobody is willing to talk beyond let's say a quarter. There are customers who are willing to talk about the next 45 days only.

#### **Ashutosh Tiwari**

Okay.

# Ravi Jhunjhunwala, Chairman and Managing Director

So that is the sense that we are trying to give that there is lot of uncertainties specially in Europe and Europe happens to be one of the largest geographies for electrode consumption.

Okay. Second thing when we are seeing this 55% to 60% of order book for the full year. Is that on the total capacity that you have or as per business plan that you have?

# Ravi Jhunjhunwala, Chairman and Managing Director

I would say that's a business plan, I mean we indicate to a level of about 85% plus.

#### **Ashutosh Tiwari**

Okay.

# Ravi Jhunjhunwala, Chairman and Managing Director

It's more on that business plan.

#### **Ashutosh Tiwari**

Okay. And sir second thing on the renewable side how much is the price increase which been happened?

# Ravi Jhunjhunwala, Chairman and Managing Director

On euro you said?

#### **Ashutosh Tiwari**

Needle coke, contract prices.

# Ravi Jhunjhunwala, Chairman and Managing Director

Contract price is between 12% to 15%.

#### Ashutosh Tiwari

You are saying for both electrode and needle coke.

# Ravi Jhunjhunwala, Chairman and Managing Director

Yes.

But actually...

The question is that not in dollar terms see..

#### **Ashutosh Tiwari**

It's dollar you are talking about.

## Ravi Jhunjhunwala, Chairman and Managing Director

I mean see needle coke cost is roughly 35% to 40% of the electrode revenues roughly in that range.

#### **Ashutosh Tiwari**

Yeah.

## Ravi Jhunjhunwala, Chairman and Managing Director

So, obviously that 12% to 15% is on the base of needle coke cost.

#### **Ashutosh Tiwari**

Okay, no I'm talking about in absolute terms what is the price of needle coke in dollars?

## Ravi Jhunjhunwala, Chairman and Managing Director

See in terms of percentage that price is about 15% to 20%.

#### **Ashutosh Tiwari**

Okay. But this is a bit conflicting because I was just going through con-call of - and they are talking about 25%, 30% increase. So, I'm a bit confused on that front is that different typing for different players?

### Ravi Jhunjhunwala, Chairman and Managing Director

No, it's not different because there three, four players and the pricing is very well known to everybody. It's probably got to do with some special category, some special customers and some special suppliers.

#### Ashutosh Tiwari

Okay.

# Ravi Jhunjhunwala, Chairman and Managing Director

It is more in the range of let's say 20% rather than 30%.

Okay. So, even if the price increase is 20%, in that case if the - prices go up by 12% to 15% on absolute business also your margins should extend even if you don't consider any impact of lower cost in needle coke of last year?

# Ravi Jhunjhunwala, Chairman and Managing Director

No, you are right. But, needle coke is only 40%, 45% of the cost.

Okay.

# Ravi Jhunjhunwala, Chairman and Managing Director

The Indian power prices have been going up going up very substantially.

#### **Ashutosh Tiwari**

Yeah.

# Ravi Jhunjhunwala, Chairman and Managing Director

Everybody who has a coal based power plant is very badly hit with the pricing that we are seeing on the coal front.

#### **Ashutosh Tiwari**

Okay.

# Ravi Jhunjhunwala, Chairman and Managing Director

The Indian coke and Indian pitch and Indian fuel, Indian fuel the LSHS oils. They are all more or less government controlled, as far as the Indian coke is concerned it's Indian oil, as far as the - pitch is concerned it's all steel authorities and then again when you come to gas and furnace oil and LSHS it's all directly under the government control they are all administered prices.

#### Ashutosh Tiwari

Okay. And sir I mean 85% capacity utilization we're talking about, is expanded capacity, full capacity that you have?

# Ravi Jhunjhunwala, Chairman and Managing Director

Yeah.

### **Ashutosh Tiwari**

So I mean, and then what kind of demand do you expect in India, because I mean other players you will look at - they are talking about 70% kind of levels of full year or maybe because they have some inventory so may be say 75% 50 odd percent at the maximum that they can sell of their capacity right now in this calender year. So, in that scenario I mean are you banking more on the Indian demand or is that is the case?

# Ravi Jhunjhunwala, Chairman and Managing Director

No, we are more or less selling more than 80% in exports. So whatever happens in India will help us to the extent of the last 20%, 25% and no more.

#### **Ashutosh Tiwari**

Okay. But any big capital that has come up over last six months or something which could boost up demand from India of electrode?

# Ravi Jhunjhunwala, Chairman and Managing Director

See there are new electric arc furnaces which have come up in the last year or so. But again India is again today an open market, I mean we are not alone in India, there are we are compete with imports. So we don't basically look at India differently than let's say Europe or U.S, just like we compete with them in those countries, they compete with us in our own country.

# Manvinder Singh Ajmani, Chief Financial Officer

It's a global market, Ashutosh.

## Ravi Jhunjhunwala, Chairman and Managing Director

So a part from Europe which ever economy or reasons you are seeing a good demand pick up in this we have in terms of bookings?

## Ravi Jhunjhunwala, Chairman and Managing Director

So U.S is very good. U.S in fact the first quarter of this year U.S has grown by something like 5% 6%. Middle East is looking very good.

#### **Ashutosh Tiwari**

Okay.

# Ravi Jhunjhunwala, Chairman and Managing Director

And we have certain advantages of proximity with the Asia and Middle East. And lot of growth is happening in these two areas. Okay. And sir Europe how bad it could be as compared to last year in terms of bookings I mean you expect some decline actually from orders that you got from Europe this year in absolute terms?

# Ravi Jhunjhunwala, Chairman and Managing Director

It could be, I mean, the first quarter minus 2% I mean, I am talking of steel. So steel production is minus 2% and you never know the third quarter in Europe is always the worst quarter in half of the year stopped working.

#### **Ashutosh Tiwari**

For the full year, it could go down by 1.5% to 2% from last year levels but just wanted to understand is the impact on EAF furnace more or is there no differentiation from last two EAF furnace in terms of production something like that, that EAF markets stands on that front?

# Ravi Jhunjhunwala, Chairman and Managing Director

See, EAF market has advantages and certain disadvantages both. In bad times it's always EAF which stops first because it's more flexible, you can start and stop at will so when the markets are bad obviously it is much more easy to stop Electric Arc Furnace for 10 days, 20 days and restart them a blast furnace. And your various other advantages of Electric Arc Furnace is because of its small size and cheaper capital cost, more flexibility. And basically in the last three, four, five years there are not too many blast furnaces which have been put up anywhere else except maybe China or maybe a couple of them in South America.

Most of the new capacity additions which have happened in the middle east in the far east and in Asia and Europe and America has more been on the Electric Arc Furnace and except China let's say. China still continues to build more and more blast furnaces because their demand pattern of steel is so large, the increase in demand of additional steel is so large that Electric Arc Furnace does not, is not enough for them.

#### Ashutosh Tiwari

Okay. And sir, in terms of competition I believe put up one new facility in Malaysia. So is that changing because I think this was the first time that somebody moved the capacity to emerging markets from the two large players. So does that have any impact as such on the overall supply dynamics because it was after a very long time that somebody else apart from the two players in India have put up increase capacity

# Ravi Jhunjhunwala, Chairman and Managing Director

So we don't see any change at the global level because they have announced a capacity closure in Europe to make way for this Malaysian plant. So to send the Malaysian plant goes into production they are going to shut down some of their existing facilities in Europe.

#### **Ashutosh Tiwari**

But in terms of the cost of production definitely Malaysian unit would be cheaper than the European operations. So I am talking more in those terms and will that have any impact as such on the market?

No, we don't see that very seriously because obviously this has been put up at current capital cost. So if you compare the fixed cost in the variable cost, I am not sure whether it's going to be much more cheaper than their existing facilities in Europe.

#### Ashutosh Tiwari

Okay, including the fixed costs you are saying. Okay.

## Ravi Jhunjhunwala, Chairman and Managing Director

Yeah.

## Ashutosh Tiwari

And sir in terms of needle coke, will there be any new supplies coming up over next two years because I believe the terms and it demand moves up that will be the biggest constraint for the industry. So, will there be any improvement over there on needle coke supplies front?

## Ravi Jhunjhunwala, Chairman and Managing Director

See, there is a positive on this front which is the product called the pitch needle coke.

#### **Ashutosh Tiwari**

Yeah.

# Ravi Jhunjhunwala, Chairman and Managing Director

The Japanese has develop a needle coke produced out of binder pitch which is a byproduct of this blast furnace steel, so that has now come each and there are two plants in Japan, which are producing more than 160,000 tonnes, 170,000 tonnes of pitch coke. So this has all happened in the last four, five years. And they have been expanding in the last two, three years also both these Japanese producers have been expanding their capacity for pitch coke.

#### **Ashutosh Tiwari**

Okay.

# Ravi Jhunjhunwala, Chairman and Managing Director

And very recently about six to nine months ago, one of these two Japanese Mitsubishi has announced a he joint venture with POSCO, to put up 60,000 tonne new pitch coke plant in Korea. In excitingly there are two plants in Japan which are already in operation, which have been expanding and the third plant is being set up in Korea. With one of the two producers for this pitch coke in Japan the Mitsubishi in joint venture with POSCO. So, that is the additional source of coke.

So, this can be used like needle coke only for thought process or some changes need to be made?

# Ravi Jhunjhunwala, Chairman and Managing Director

No. You need to make some adjustments in the electrode processing. It's a total reflection of needle coke.

Sir, tomorrow if you say HEG wants to use that coke, will that be possible?

# Ravi Jhunjhunwala, Chairman and Managing Director

Yeah. We are using.

#### **Ashutosh Tiwari**

You are using that thing.

## Ravi Jhunjhunwala, Chairman and Managing Director

I mean all of us are using, I mean it all depends upon what percentage of your total production that you are using the pitch coke, but everybody is using today.

#### **Ashutosh Tiwari**

And how much it would, I mean how much what percentage using in case of needle coke? And your...

# Ravi Jhunjhunwala, Chairman and Managing Director

Not much, not much. You see, it is slightly more difficult product to use so to the extent that the petroleum needle coke is available to us.

#### **Ashutosh Tiwari**

Yeah.

# Ravi Jhunjhunwala, Chairman and Managing Director

You want to give the first reference to the petroleum coke.

# **Ashutosh Tiwari**

Okay.

But we have been buying pitch coke, we have been making trials with both the suppliers of pitch coke and currently we are more or less in a situation that we can use as pitch coke as we want.

#### **Ashutosh Tiwari**

Okay. And sir like one tonne of needle coke requires for one tonne of electrodes so will the ratio will remain the same for...

# Ravi Jhunjhunwala, Chairman and Managing Director

It's the same.

### **Ashutosh Tiwari**

And what be the differencing pricing as such between the two?

# Ravi Jhunjhunwala, Chairman and Managing Director

I think again it's more or less being the same. It really depends on the market dynamics of demand and supply of coke.

Okay, and sir, second thing what's the current supply total NO supply needle coke in the world basically? Just want to compare this capacity of pitch coke with neele coke.

## Ravi Jhunjhunwala, Chairman and Managing Director

See, Conoco is about 425,000 tonnes to 430,000 tonnes.

#### **Ashutosh Tiwari**

Okay.

# Ravi Jhunjhunwala, Chairman and Managing Director

Then there is this company in America which is owned by - that's about 150 then there are two producers of petroleum needle coke in Japan who are more or less in the region of let's say 170,000 tonnes.

#### **Ashutosh Tiwari**

Both together or separate?

## Ravi Jhunjhunwala, Chairman and Managing Director Ashutosh Tiwari

Okay. So that means that actually this pitch coke can eventually normally a larger share, on China into substantial of 10 years to 15 years in that?

# Ravi Jhunjhunwala, Chairman and Managing Director

Yes, and we are not adding China also here because China also produces some pitch coke.

#### **Ashutosh Tiwari**

Okay. So in the long-term basically this pitch coke could support industry to go sustained?

# Ravi Jhunjhunwala, Chairman and Managing Director

Yes, it has become an alternate, I mean, at least that is something which is visible today.

#### **Ashutosh Tiwari**

Okay, thanks sir. That would be all.

# Ravi Jhunjhunwala, Chairman and Managing Director

Thank you.

# **Operator**

Thank you. The next question is from Himanshu Nayyar from Quant Broking. Please go ahead.

# Himanshu Nayyar

Good afternoon, sir and thanks for taking my question.

# Ravi Jhunjhunwala, Chairman and Managing Director

Good afternoon.

## Himanshu Nayyar

Yes. So firstly just wanted to know if the current quarter numbers incorporating the recently commissioned capacity. I am seeing the numbers depreciation interest have not jumped up significantly. So have we capitalized that completely in the quarter? There are certain facilities which are yet to be capitalized. They will be capitalized over the next six months.

## Himanshu Nayyar

The next six months. Okay and sir secondly just wanted know if you would be able to give a breakup of this ForEx loss that you have had as to how much of that would be restatement of your ForEx loans and how much of that would be actual realized hedging loss?

## Manvinder Singh Ajmani, Chief Financial Officer

See, the product losses mostly realized. And how to provide a breakup it's basically on the working capital borrowing as we borrow significantly on in foreign currency for our working capital needs to be comparative in terms of interest cost there has been a significant position of that coming from working capital borrowing and another portion coming from the hedging position that we had undertaken. This time earlier we hedge on a six to nine months basis, rolling basis, so some of the hedging positions went into a loss due to the sharp volatile momentum of USD.

### Himanshu Nayyar

Right. Sir one more thing on power, given that now we have expanded capacity. So I just wanted to know this year should we factoring in open market sale of power or would all of that be consumed captively?

# Manvinder Singh Ajmani, Chief Financial Officer

See our power usage is intermittent, we have certain power business stages where power consumption is much higher. So we at the same time even though theoretically we may a 100% captive power available. Practically speaking, one factor that our power usage is intermittently higher, causes us to draw from the GRID. Also the fact that we need to buy about 10% of our power from the GRID on account of the connections that we have for this intermittently high usage. So we always even in our perfect situation we will always be drawing about 10% and selling about 10%.

## Himanshu Nayyar

Okay. And sir lastly one final thing if you could just give me some broad estimate as to what would be the replacement cost of this 80,000 ton capacity that we have put up.

# Ravi Jhunjhunwala, Chairman and Managing Director

I don't think we have ever attempted to do that also. It will be a very wild guess if you ask for a number.

#### Himanshu Nayyar

Okay. I just wanted to have an idea if someone would want to set up this sort of a scale of capacity, what would be the investment?

### Ravi Jhunjhunwala, Chairman and Managing Director Himanshu Nayyar

And what is the size of that capacity?

# Ravi Jhunjhunwala, Chairman and Managing Director

It's again not very clear they have been talking about half capacity for electrodes and half for cathodes and they are talking about 40,000 tons to 50,000 tons.

# Himanshu Nayyar

Okay.

# Ravi Jhunjhunwala, Chairman and Managing Director

But it's not, again as I said it's not something very clear because it's not purely for electrodes, neither it's purely for cathodes. So they are talking about 50 50 and sometimes they also say that it is fully convertible and probably in the region of EUR 225 million EUR 250 million.

## Himanshu Nayyar

Okay. But we would we had HEG would have a long time to go before we think of further expansion?

# Ravi Jhunjhunwala, Chairman and Managing Director

Yes, for the time being I mean obviously we just mentioned that we are hoping to run at about 85% plus capacity and 85% of our business plan we are not even talking of 100% of that.

## Himanshu Nayyar

Right.

# Manvinder Singh Ajmani, Chief Financial Officer

Obviously for the time being there is no question of increasing any capacity.

## Himanshu Nayyar

Sir, in an optimum case what's the maximum level of utilization can we achieve I mean given that we would be taking from sort of maintenance shut downs et cetera.

See, in one of the quarters like the third quarter we went beyond 100% we were at about 105%, 106%. So, theoretically once in a while in one particular quarter you can actually go to 105%, 107% also. For the whole year I mean we were 90% plus.

## Himanshu Nayyar

Okay. And you mean to say 90% on the expanded capacity or on the old capacity for FY12?

# Ravi Jhunjhunwala, Chairman and Managing Director

On a weighted average basis.

### Manvinder Singh Ajmani, Chief Financial Officer

Weighted average, I mean let's take about 1.5 month of the last quarter and adjust it for that.

## Himanshu Nayyar

Okay, okay. Alright sir. Thanks a lot and all the best. That's all from my side.

# Manvinder Singh Ajmani, Chief Financial Officer

Thank you.

# **Operator**

Thank you. The next question is from Shailesh Raja from B&K Securities.

### **Analyst**

Sir, thank you for taking my question.

# Ravi Jhunjhunwala, Chairman and Managing Director

Thank you.

## **Analyst**

In FY12 what the revenue breakup between domestic market and international market sir?

# Manvinder Singh Ajmani, Chief Financial Officer

In terms of sales revenue? Yeah, top-line for 80-20, domestic is 80?

# Manvinder Singh Ajmani, Chief Financial Officer

Domestic is 20.

# Ravi Jhunjhunwala, Chairman and Managing Director

Domestic is 20 and exports are 80.

### **Analyst**

Okay. There is a news that there is a shortage in needle coke only few players supply needle coke that is in Conoco they have a market share of around 85% to 90%. So, they are increasing the realization every year, so what is your view on that every sir? Do you think -- margin that will lead the margin will be pressured every year?

## Manvinder Singh Ajmani, Chief Financial Officer

See needle coke, Conoco has about two-third of the market not 80%, 85% as our Chairman outline the broad capacity of needle coke in response to the previous question.

## Analyst

Okay.

# Manvinder Singh Ajmani, Chief Financial Officer

And also this doesn't happen to be the major revenues stream because needle coke is not been produced by Conoco for the sake of needle coke it's a byproduct.

## **Analyst**

Okay sir.

# Manvinder Singh Ajmani, Chief Financial Officer

So, it is not that needle coke will not get produced for the sake of producing needle coke and making a lot of money on that it's really a byproduct.

### **Analyst**

Okay, thank you. Sir, what's the growth rate in India sir?

Except the last five, seven years there was practically no growth of electric arc furnace because of our power problems in this country. Electric arc furnace requires lot of electrical power, but in the last five, seven years since the private companies are now allowed to have their own captive power plant with the captive coal mine and things like that.

### **Analyst**

Okay.

# Ravi Jhunjhunwala, Chairman and Managing Director

Lot of new electric arc furnaces have now started coming in. To take example the entire Hajira of - is not belectric arc furnace. Most of the steel production is through electric arc furnace. Some of the general steel and power some of the GSW they are all with electric arc furnaces also.

## **Analyst**

Okay.

# Ravi Jhunjhunwala, Chairman and Managing Director

So things are changing, they have changed the over the last five-seven years because now it is possible to have your own coal, it is possible to have your own power plant which was not really reality until five, ten years ago.

### **Analyst**

Okay. Thank you sir.

# **Corporate Participant**

Thank you.

# **Operator**

Thank you. [Operator Instructions]. The next question is from Sushant from ICICI Direct. Please, go ahead.

## **Analyst**

Hello sir.

# Ravi Jhunjhunwala, Chairman and Managing Director

Hi.

Sir, just wanted to know what is the movement in domestic input prices, like binder pitch and all that for the current year?

# Ravi Jhunjhunwala, Chairman and Managing Director

Overall the impact would be close to I think in terms of price increase is close to about \$100.

## **Analyst**

\$100.

## Ravi Jhunjhunwala, Chairman and Managing Director

Yeah.

### **Analyst**

And what is our weighted cost of capital?

# Ravi Jhunjhunwala, Chairman and Managing Director

Weighted cost of capital is sub six.

## **Analyst**

Sub six. Okay sir. Thank you.

# **Operator**

Thank you. The next question is from Chetan Thacker from HSBC Invest Direct. Please go ahead.

### **Chetan Thacker**

Afternoon, sir. Thank you for taking the question. I wanted to understand what is the extent of increase in coal prices which have been witness in this quarter, on the linkage coal front?

# Manvinder Singh Ajmani, Chief Financial Officer

You want to know the linkage price increase?

#### **Chetan Thacker**

Yes.

On the linkage side or the market price increase?

#### **Chetan Thacker**

Both of them, it would be good if you could share some light on that?

## Manvinder Singh Ajmani, Chief Financial Officer

Yes, in this particular quarter, in terms of linkage the price increase the costs has been about roughly 15% to 20%.

#### **Chetan Thacker**

# Manvinder Singh Ajmani, Chief Financial Officer

Yes.

#### **Chetan Thacker**

And on the market price front?

## Manvinder Singh Ajmani, Chief Financial Officer

It's about 5%, 7%.

#### **Chetan Thacker**

And sir I just wanted to understand from last quarter there was news that they have given the expectation of electrode prices. There were certain preponements of bookings which were done in the last quarter itself. So I just wanted to get a sense on incrementally what have been the bookings if we exclude those preponements which would have happen anticipating an increase in electrode prices?

# Ravi Jhunjhunwala, Chairman and Managing Director

You see it always happens, as far as a the electrodes are concerned all our major competitors from Japan, U.S and Europe, they announce a price increase which is more or less effective from let's say 1 of January. And these negotiations normally start sometime in October, November, December. So obviously if there has been a sharp increase which has been announced from 1 of January, so automatically people prebuy in November, December.

So it came as a boon to all the graphite industry let's say in 2009 when this economic crisis started happening in October, November, December. And there was a very sharp announcement of price increase which had been done. But that time it came as a boon because lot of companies had purchased at the 2009 prices the new prices which were announced because the things are going extremely strong until the time the whole thing collapsed.

Now obviously this year is different because the things have not been very good in the last six months specially in Europe. First of all the customers who have been buying and taking decisions for 12 months in October, November, December let's say for the whole of calender year, they have been just waiting because they are themselves not clear about their production of steel. So to that extent there have been delays as far as the customers are concerned in taking their view on the whole of 2012. And secondly the price increase announcements this year also very very sharp, and so obviously in that background there has been lot of pre-purchases and that's nothing new and that's nothing abnormal. And so more or less let's say from this quarter onwards probably we would be more or less selling everything at the new prices. So basically that's the answer to your question.

#### **Chetan Thacker**

Sir, just to get a sense essentially of the 50% 60% order booking which we have seen how much would have come in form of pre-booking and how much you would have done incrementally in the last quarter?

## Ravi Jhunjhunwala, Chairman and Managing Director

This 50% 60% is what we are talking about let's say for our financial year started April onwards.

### **Chetan Thacker**

On April onwards.

# Ravi Jhunjhunwala, Chairman and Managing Director

So let's say from this April to next March if we are proposing to do 70,000 tons 72,000 tons kind of a production. So we have booked to the extent of 55% 60% that's what we meaning and that 55% 60% is obviously at a higher price.

#### **Chetan Thacker**

Okay. Get it sir. And sir, in terms of the contracts which are there per se with the buyers, how are these contracts defined, are they volume contracts with price agreed upon and can they be delayed or what are the contract terms?

## Ravi Jhunjhunwala, Chairman and Managing Director

They are both quantities and prices both and deliveries.

#### **Chetan Thacker**

And can we be delayed essentially or is there any penalty on the buyer if he delays something?

# Ravi Jhunjhunwala, Chairman and Managing Director

No, technically they cannot delay but obviously in practice if they want to delay by a month or two, there is no way that you can deny that

Okay. Sure sir. Thank you so much.

## Ravi Jhunjhunwala, Chairman and Managing Director

Thank you.

## **Operator**

Thank you. [Operator Instructions]. As there are no further questions from the participants I'd now like to hand over the conference back to Mr. Ravi Jhunjhunwala for closing comments.

# Ravi Jhunjhunwala, Chairman and Managing Director

Okay, thank you for joining us on this conference call. And I hope to speak to you in the next three months with a better set of numbers. Thank you.

# Manvinder Singh Ajmani, Chief Financial Officer

Thank you very much.

## **Operator**

Thank you. On behalf of HEG Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines. Thank you.