



PROUD TO BE INDIAN.  
PRIVILEGED TO BE GLOBAL.

## Commitment to Quality



HEG Limited

Annual Report 2002 - 2003

[www.reportjunction.com](http://www.reportjunction.com)

## JOURNEYING INTO A BRIGHT FUTURE

"Our vision is to forge ahead in the new millennium with an immediate sense of purpose... and to be seen as the undisputed leader, fully equipped to deliver the best, across the diverse spectra of our many businesses, fuelled by a commitment to invest in plants, machinery, processes and, most importantly, our people – Team Bhilwara; all towards satisfying and fulfilling our customer's needs in today's globally competitive environment."

Shekhar Agarwal  
*Group Vice Chairman*

Ravi Jhunjhunwala  
*Group Chairman*



The UNJ Bhilwara Group is renowned for its speed, efficiency and superior quality. Achieving global standards is possible due to a conducive environment, where the team gives its very best.

As such, an Oyster that produces a magnificent pearl, represents this very ambience, symbolising the many products manufactured by the Group. The use of a globe as a pearl epitomises international quality in every product, and the Group's global presence, while the dynamic orbit represents a vibrancy and enthusiasm that is inherent within Team Bhilwara.



## GROUP SALIENT FEATURES

The LNJ Bhilwara Group, founded in 1961 by the Chairman - Emeritus, Mr. L.N. Jhunjhunwala, is a business group with a global presence.

It has risen to become one of the largest business firms in the Indian federation, with over 20,000 employees and 17 production units positioned at strategic locations across the country.

It actively seeks growth and profitability by investing in a variety of systematically identified businesses making it a multi-product conglomerate with interests in a range of industries such as textiles, graphite electrodes, power generation, power consultancy services, sponge iron, information technology and IT enabled services.

Following the success of its earlier HEP project of 15 MW at Tawa Nagar (M.P) in 1997, the Group has commissioned, India's first IPP hydroelectric Malana Power Project of 86 MW in a record time of 30 months at Kullu (H.P), in July, 2001 and is set to commence work on 200 MW Allain-Duhangan Hydro Electric Project at Manali (H.P.).

The Group has the largest integrated Graphite Electrodes manufacturing plant in South East Asia and products selling to the major steel plants in the world. Graphite exports constitute 80% of total sales volume.

The Group export earnings comprise as much as 46% of the group's turnover of Rs. 1727 crores during 2002-2003.

The Group launched an innovative & eco-friendly range of yarn & fabric. In recent times, it has also emerged as the leading supplier of specialised Automotive fabric to all key automobile companies in India.

The Group has been servicing world class customers and several leading global brands for their knitted garments.

The domestic brands, Mayur Suitings, BSL Suitings, La Italia Fashions, Buddy Davis Leisurewears and Geoffrey Hammond superfine suitings have a long and prosperous association in India.

Fulfilling its promise of giving its customers the highest level of quality and world-class products has led to the Group receiving coveted top export awards in different fields for several years in a row.

The Group companies have also been awarded IS/ISO 9001:2000 certification for their continuous exemplary quality standards.

## GROUP FINANCIAL HIGHLIGHTS

(Rs. in Crores)

PARTICULARS	2001-2002	2002-2003
Turnover	1682	1727
Export Sales	767	784
PBDT	158	186
PBT	50	73
PAT	41	63
Gross Fixed Assets	1899	1929
Net Worth	695*	729

\* Net Worth had declined due to deferred tax liability fund of Rs. 141 crores, created out of net worth.

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HEG LIMITED

## FINANCIAL HIGHLIGHTS

(Rs. in Crores)

PARTICULARS	2000-2001	2001-2002	2002-2003
Turnover	545.03	563.49	<b>564.89</b>
Exports	303.54	325.43	<b>307.55</b>
PBIDT	97.60	94.67	<b>86.14</b>
Interest	35.08	33.96	<b>22.31</b>
PBDT	62.52	60.71	<b>63.84</b>
Depreciation	20.28	22.60	<b>23.34</b>
Taxation	2.13	1.18	<b>3.22</b>
PAT	40.11	30.94	<b>37.28</b>
Net Worth	257.65	219.73	<b>246.99</b>
EPS (Rs.)	9.80	7.68	<b>9.25</b>
CEPS (Rs.)	14.70	13.28	<b>15.04</b>
Book Value per share (Rs.)	63.67	54.51	<b>61.27</b>



## HEG LIMITED

### BOARD OF DIRECTORS

Shri L.N. Jhunjhunwala, Chairman - Emeritus  
 Shri Ravi Jhunjhunwala, Chairman & Managing Director  
 Shri Shekhar Agarwal, Vice Chairman  
 Shri V. K. Mehta, Director  
 Shri D. N. Davar, Director  
 Shri B. V. Bhargava, Director  
 Shri Kamal Gupta, Director  
 Shri P. Murari, Director  
 Shri R. C. Surana, Executive Director  
 Shri E.I. Thomas, (Nominee LIC)  
 Shri P.S. Mahrotra, (Nominee UTI)  
 Shri Nikki Mehta, (Alternate to Shri V.K. Mehta)

### KEY EXECUTIVES

Shri V. P. Singh, Adviser  
 Shri Prakash Maheshwari, President (Rishabhdev Unit)  
 Shri R. K. Panagariya, Vice President (Durg Unit)

### COMPANY SECRETARY

Shri Ramesh Gupta, Company Secretary

### AUDITORS

M/s Doogar & Associates  
 M/s S.S. Kothari & Co.

### BANKERS

State Bank of India  
 State Bank of Patiala  
 State Bank of Indore  
 State Bank of Bikaner & Jaipur  
 The Bank of Rajasthan Ltd.  
 Bank of Baroda  
 Punjab National Bank  
 Central Bank of India

### CORPORATE OFFICE

Bhilwara Towers,  
 A-12, Sector-I,  
 Noida-201 301 (U.P.)  
 Ph. : 0120-2541810  
 Fax : 0120-2531648, 2531745  
 E-mail : hegltd@vsnl.com

### REGISTERED OFFICE

Mandideep, (Near Bhopal),  
 Distt. Raisen, M. P.-462 046  
 Phone : 07480-233524 to 233527  
 Fax : 07480-233522  
 E-mail: hegmddp@sancharnet.in

### WEB SITE

www.lnjbhilwara.com, www.hegltd.com

### OFFICES

#### Mumbai

62/63, Maker Chambers No.6  
 Nariman Point, Mumbai-400021  
 Phone : 022-22838891, 22831712  
 E-mail : hegltd@vsnl.com  
 Fax : 022-22870375

#### Kolkata

604, Central Plaza,  
 Block-4, 6<sup>th</sup> Floor  
 2/6, Sarat Bose Road  
 Kolkata-700 020  
 Phone : 033-24759963, 24745803  
 Fax : 033-24750584

#### Bangalore

1-1304-04 (13<sup>th</sup> Floor)  
 Brigade Tower,  
 135, Brigade Road,  
 Bangalore - 560 025  
 Phone : 080-22271067  
 Fax : 080-22218940

### WORKS

#### Graphite

Mandideep, (Near Bhopal)  
 Distt. Raisen M.P., Pin : 462046  
 Phone : 07480-233524 to 233526  
 Fax : 07480-233522

#### Textile

Rishabhdev  
 Distt. Udaipur (Rajasthan)  
 Pin - 313802  
 Phone : 02907-230322 to 230325  
 Fax : 02907-230320

#### Sponge Iron and Waste Heat Recovery System (Power Plant)

Industrial Growth Centre,  
 Borai, Distt. Durg (M.P.)  
 Phone : 0788-2647214-2647216  
 Fax : 0788-2647201

#### Hydel Power

Village Ranipur, Tawa Nagar,  
 Distt. Hoshangabad, M.P. 461 001  
 Telefax : 07572-272810, 272859  
 Fax : 07572-272849



## DIRECTORS' REPORT

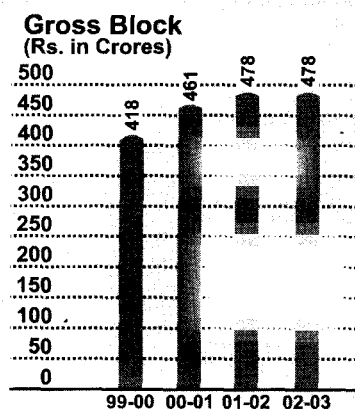
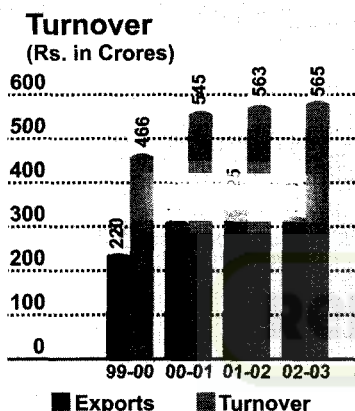
### TO THE MEMBERS

The Directors are pleased to present the 31<sup>st</sup> Annual Report including the audited financial statements for the year ended 31<sup>st</sup> March 2003, reporting a strong performance that continues to be driven by cost and quality-led competitive advantages, strong exports in the core business, and enhancements in overall operating efficiencies.

### Financial Results & Appropriations

#### Financial Results

(Rs. in Crores)



	THIS YEAR 2002-2003	PREVIOUS YEAR 2001-2002
Turnover :-		
– Domestic	257.34	238.06
– Export	307.55	325.43
Total	564.89	563.49
Profit Before Interest, Depreciation and Taxes	86.14	94.67
Interest	22.31	33.96
Profit before Depreciation and Taxes	63.84	60.71
Depreciation	23.34	22.60
Profit before Tax	40.50	38.11
Provision for taxation:-		
Current year	2.34	1.27
Deferred	(1.59)	5.99
Provision for earlier years	2.47	0.09
Net Profit (Excluding extra-ordinary items)	37.28	30.94
Gross Block	478.43	477.65
Net Worth	246.99	219.72
EPS	9.25	7.68

#### Appropriations

Amount available for appropriation	51.79	46.77
Dividend :-		
a) On Equity Shares	8.87	7.26
b) Corporate Dividend Tax	1.14	–
Transfer to:-		
a) Debenture Redemption Reserve	(2.50)	(11.70)
b) General Reserve	19.50	36.70
Balance carried forward	24.78	14.51



## DIVIDEND

The Board recommends a dividend of 22% on equity shares of face value Rs. 10/- each, amounting to a payout of Rs. 8.87 crore. This is higher than the dividend paid last year and is in line with the Company's philosophy of enabling shareholders to participate in its progressive performance

## MANAGEMENT DISCUSSION AND ANALYSIS

### MACROECONOMIC OVERVIEW

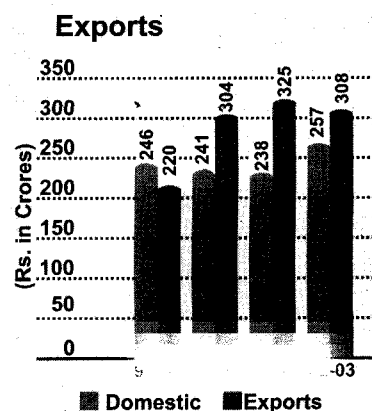
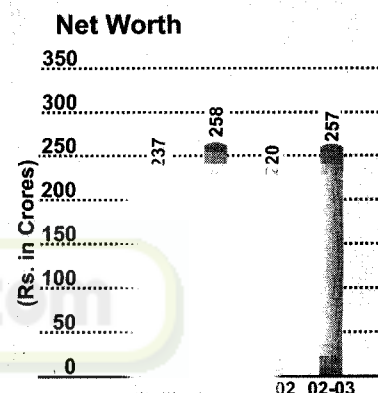
Fiscal year 2003 has been a period of challenges and opportunities for businesses across the world. The uncertainties emanating from the global geo-political situation and overall economic degrowth created a challenging operating environment for businesses worldwide and while that was mitigated to some extent by an increasingly optimistic outlook, especially in the manufacturing and related sectors, the global economy continued to show some signs of weakness. In such a scenario, those players that were able to transform challenges into opportunities to make themselves more competitive – by improving operating efficiencies, expanding market reach, and enhancing product quality through technological upgradation – are now ideally positioned to benefit from any upsides that might occur in the global economy in the near future.

The graphite electrodes industry is going through a phase of transition globally, marked by large-scale restructurings. Some of the leading Western manufacturers have either totally closed down their operations at high cost locations or partially moved to more economical locations. These developments have resulted in contraction in total graphite electrode capacities in the world. The slowdown in the US and European economies have impacted the operations of the high-cost small and medium players in the sector, with two companies – one in the US and another in Germany – accounting for 70,000 MT per annum of graphite electrode capacity, being compelled to cease operations at their plants.

International trends in steel production remained biased towards the Electric Arc Furnace (EAF) method, leading to increasing demand for graphite electrodes. The EAF route of steel production has gained acceptance and popularity within the steel sector due to the cost and quality advantages it provides. As a result, the share of EAF-based steel production units has increased from 14% in 1975 to over 34% in 2002, with the EAF route having a share of almost 50% in some developed countries such as the USA. This trend is likely to continue, with the share of EAF-based steel units projected to rise to 43% by 2010.

### PERFORMANCE OVERVIEW

The Company's performance in the year under review demonstrates the strong operating results of its graphite electrode business that have been driven by definitive cost and quality-led competitive advantages on a global scale. The Company's total revenues increased to Rs. 564.89 crore and exports continued to be the key driver of growth in both revenues and earnings, constituting 54.44% of the total turnover. The Company registered a 20% growth in net profit, advancing to Rs.37.28 crore from Rs.30.94 crore last year. Innovative measures aimed at attaining improved processes and higher efficiencies enabled the Company to strengthen its global competitiveness in a market characterized by declining prices for graphite electrodes during the last three years.





## Graphite electrodes

### (a) Revenues

The Company's focus on value-added, technology-driven high-end products and the international markets continued to yield results during fiscal 2003, with the Graphite Electrodes Division demonstrating growth in both production and sales. The Division's total sales increased 10% to 29,469 MT and production advanced to 28,787 MT from 27,698 MT last year. Exports are a key growth driver for the Company and during the year under review, our graphite exports expanded to 23,055 MT from 22,445 MT.

### (b) Cost and quality-led competitive advantages

The Graphite Electrodes Division's strong performance during a year that has been challenging for businesses worldwide was driven by the Company's sustained efforts to enhance its quality and cost-led competitive advantages in the global markets and strengthening customer relationships through a robust marketing and service infrastructure.

Increased efficiencies, improved processes, and innovative initiatives aimed at achieving world-class quality with unparalleled economy have made the Company one of the lowest cost producers of graphite electrodes in the world. We have created extremely high levels of technical competence and unrivalled efficiency advantages that makes us a sustainable and reliable vendor to our customers. Resultantly, the Company today has an impressive global customer base comprising some of the largest and best steel producers of the world. The Company's products enjoy a high degree of acceptance and favourability amongst discerning customers worldwide and are being successfully benchmarked with other international players in the sector.

### (c) Exports

HEG is the country's largest exporter of high quality graphite electrodes and exports its products to leading global steel players, primarily in developed countries across Europe, Asia-Pacific and the US. The Company's exports have grown at a CAGR of 7% over the last 3 years as it aggressively explored new export markets and expanded existing ones, with recent advances made in the high potential markets of China, Spain and Poland.

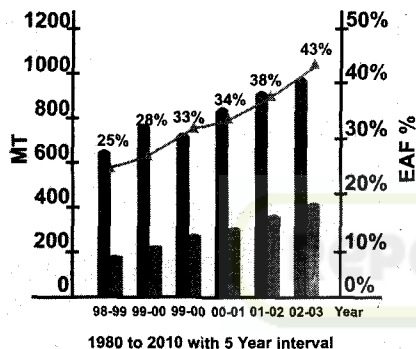
The Company has a well-defined strategy to achieve a dominant position in the global markets by identifying and capitalizing on emerging global opportunities on the back of world-class quality, superior service, and unmatched cost advantages.

### (d) Awards and recognitions

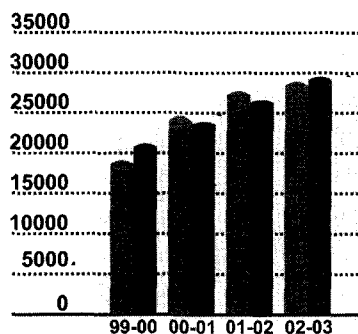
The Graphite Electrodes Division's efforts at achieving all round excellence gained recognition at various levels in both industry and government, with multiple awards conferred on it during fiscal 2003.

*Rajiv Gandhi National Quality Commendation Award 2001:* The Company's ongoing focus on creating value for its customers, through leadership in quality, received recognition from the Bureau of Indian Standards (BIS) through this Award. This Award has been designed in line with similar awards in developed countries, like the Malcolm Baldrige National Quality Award in USA, Deming Prize in Japan and the European Quality Award

**EAF vs Total Steel**



**Graphite Production- Sales**





**CAPEXIL Award for Highest EXPORTS:** The Company's consistently robust performance in the international markets has enabled it to distinguish itself as a recipient of the coveted CAPEXIL Award for the past 17 consecutive years

**First prize in state CII Safety, Health & Environment competition:** In all its operations, the Company continuously seeks to promote best environmental practices consistent with its corporate values and is committed to minimising any adverse effects on the environment from the conduct of its business. These efforts resulted in the Company winning the first prize in the first ever Safety, Health & Environment competition organized by CII at the state level

**Gold Medal for Technology Innovation:** Creating innovative products and services that respond to customer needs has always been a way of life at HEG. During the year, the Company's new innovation, the Activated Carbon Cloth, received strong appreciation at the India international Trade Fair (IITF) in New Delhi and was awarded the Gold Medal for Technological Innovation

**ISO 9001:2000 certificate from BVQI:** The Company received the ISO 9001:2000 certification from BVQI for its product and customer processes that are in line with established quality standards and guidelines. The Company is committed to adopting best practices and putting in place initiatives aimed at further strengthening its quality leadership on an ongoing basis

## Sponge Iron

The Sponge Iron Division, in addition to its operations, provides waste gases that are used for the captive power generation for the Graphite Electrode business. This Division recorded a capacity utilization of 119% during the year under review, with a production volume of 71,208 MT. The Division made significant progress during the year on the back of several progressive initiatives such as de-bottlenecking and cost reduction through improved efficiencies. The firming up of sponge iron prices during the year also boosted the Division's performance.

## Power

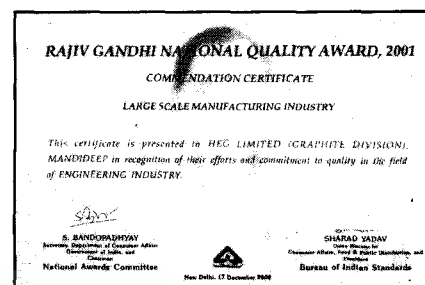
Captive power is a strategic asset for the Company and helps it lower the cost profile of its graphite electrode and sponge iron businesses. The Company's timely decision to invest in captive power generation capacities in the last 5-7 years has been key to the global competitiveness enjoyed by the graphite electrodes business.

### a) Hydro-Electric Power Plant – Tawa

The power plant at Tawa (near Hoshangabad) is a hydro-energy operation and while hydro-electric power remains the most economical source of power, it is seasonal in nature. During fiscal 2003, most parts of the country had to face drought-like situations although Tawa and surrounding regions received normal rainfall. As a result, the plant's generation increased 13% to 4.56 crore units (KWH) from 4.02 crore units (KWH) last year.

### b) Co-generation Plant – Durg

The Company operates a Waste Heat Recovery System unit (WHRS) – a power generation unit from waste gases generated from the sponge iron production process. The generation during the year expanded to 8.36 crores KWH from 7.97 crores KWH last year and the entire excess power, after captive consumption in the Sponge Iron unit, was wheeled to the Graphite unit. The economies of





power generation through waste heat recovery add to the Company's cost advantages.

### **Textiles**

#### **(a) Rishabhdev**

The Rishabhdev unit recorded a marginally lower production of 11,502 MT in the year 2002-2003 compared with 12,016 MT in the previous year and profitability of the unit continued to be under pressure. As this is a non-related operation, this unit is being hived off to another Company and the scheme is effective from 1st April 2003.

#### **(b) Jammu**

As informed last year, a decision has been taken to discontinue operations at this unit as it had become unviable.

### **GROWTH THROUGH EXPANSION – AVAILING OPPORTUNITIES**

#### ***Graphite Electrodes***

The Company today is an established player that is well regarded for the quality of its products and commitment to its clients across 30 countries around the globe. The Company has emerged as the largest producer of graphite electrodes in the whole of South Asia and Middle East following the successful de-bottlenecking of its facilities at Mandideep that created a graphite electrode capacity of approximately 30,000 MT per annum. Our focus on achieving a dominant position in our core businesses through better operating efficiencies and quality leadership is the key factor driving our strategy for future growth.

The Company evaluates various expansion alternatives on an ongoing basis and, in that context, has studied the option of offshore locations for a new green-field graphite plant. However, the studies have revealed that creating additional capacities at the existing facility at Mandideep in Madhya Pradesh would be more beneficial from the operational perspective as that would reduce the learning curve involved in a technology-intensive business like graphite electrode manufacturing and yield economies of scale, apart from minimizing the capital cost of expansion. Based upon these advantages, and in line with its objective of achieving a dominant position in its core businesses, the Company has taken a well-considered decision to double its existing capacity at its manufacturing facilities located in Mandideep. The expansion will be implemented in two phases.

The first phase, construction activities for which are already underway, will expand the capacity to 48,000 MT per annum and is expected to be completed by the end of financial year 2005 at an estimated cost of Rs. 220 crore.

In order to maintain the Company's strategic advantage derived from availability of captive power resources, the expansion of graphite electrode capacity will be complemented with the establishment of a new 25 MW coal-based thermal plant at an estimated cost of Rs.90 crore. Commissioning of the new power plant will be synchronized with the commissioning of the expanded graphite electrode manufacturing facilities.

The second phase of expansion is aimed at further increasing capacity to approximately 60,000MT per annum, and this will follow the first phase.