



PROUD TO BE INDIAN
PRIVILEGED TO BE GLOBAL



A Vision for Excellence



HEG Limited

Annual Report 2003 - 2004

A Mission of Purpose

We will

Work purposefully and diligently towards achieving a position of undisputed leadership.

Leverage our core strengths to provide the best quality products.

Constantly be vigilant, always looking for new and innovative opportunities to create enhanced value for our shareholders and human resource bank.

Never falter in our progress to the top, and will always go forth with enthusiasm.

We are Team Bhilwara.

A Vision for Excellence



The LNJ Bhilwara Group is looking forward to forging ahead in the new millennium and be seen as the undisputed leader, fully equipped to deliver the best, across the diverse spectra of their businesses. The Company has innovative expansion plans in various fields of their business fuelled by a commitment to invest in Plants, Machinery and Processes. This will help the Company to fulfill the customer's need in today's globally competitive environment.



■ ■ CORPORATE INFORMATION

BOARD OF DIRECTORS

L. N. Jhunjhunwala	Chairman-Emeritus
Ravi Jhunjhunwala	Chairman & Managing Director
Shekhar Agarwal	Vice Chairman
D. N. Davar	Director
K. N. Memani	Director
Kamal Gupta	Director
P. Murari	Director
V. K. Mehta	Director
N. Mohan Raj	Director (Nominee - LIC)
P. S. Mehrotra	Director (Nominee - UTI)
N. Mehta	Alternate to V. K. Mehta
R. C. Surana	Executive Director & CEO

Corporate Office:

Bhilwara Towers, A-12, Sector 1, Noida 201301, India
Phone: +91 (0120) 254 1810;
Fax: +91 (0120) 253 1648

Registered Office:

Mandideep (near Bhopal), Dist. Raisen, MP 462046, India
Phone: +91 (07480) 233524 to 233527;
Fax: +91(07480) 233522

Graphite works:

Mandideep (near Bhopal), Dist. Raisen, MP 462046, India
Phone: +91 (07480) 233524 to 233527;
Fax: +91(07480) 233522

Power (Hydroelectric) works:

Village Ranipur, Tawa Nagar, Dist. Hoshangabad, MP 461001, India
Phone: +91 (07572) 272810, 272859;
Fax: +91 (07572) 272849

Sponge Iron and Waste Heat Recovery System Power works:

Industrial Growth Centre, Borai, Dist. Durg, Chhattisgarh, India
Phone: +91 (0788) 261 7214-16;
Fax: +91 (0788) 261 7201

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■ ■ GROUP SALIENT FEATURES

Founded in 1961, the LNJ Bhilwara Group today, is a Rs. 1815 crore, with a strong global presence. **Lead by the Founder & Chairman-Emeritus, Mr. L.N. Jhunjhunwala**, the business Group is one of the largest firms in the Indian corporate world with over 20,000 employees and **17 production units positioned at strategic locations across the country.**

The Group export earnings comprise as much as 45% of the Group's turnover of Rs.1815 crores during 2003-04. The Group is a well-diversified conglomerate. 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 and IT enabled services.**

The textile division of the Group is not only a key player of the Industry but also has many firsts to its credit. They produce a unique fire retardant yarn called Trevira and also are the sole licensees for the specialized Tencel. The Group has time and again been acknowledged for world-class quality products for the domestic market such as **Mayur Suitings, BSL Suitings, La Italia Fashions, Buddy Davis Leisurewears and Geoffrey Hammonds superfine suitings.** At the same time, their services to several leading global brands for the knitted garments have been recognized in the form of top export awards in different fields for several years in a row.

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 70% of total sales volume. **HEG an integral part of the Group is all set to undertake a Rs 450 crore expansion plan to tap opportunities in the export market. The expansion of the Mandideep plant would double the capacity from 30,000 MT per annum to 60,000 MT per annum.**

Following the success of its earlier HEP Project of 15 MW at Tawa Nagar (MP) 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 (HP), in July, 2001 **and is set to commence work on 200 MW Allain-Duhangan Hydro Electric Project at Manali (HP).**

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	2002-2003	2003-2004	
Turnover	1727	1815	
Export Sales	784	792	
PBIDT	288	259	
PBDT	186	201	
PBT	73	81	
PAT	62	72	
Gross Fixed Assets	1929	1953	
Net Worth	729	768	



■ ■ HEG LIMITED



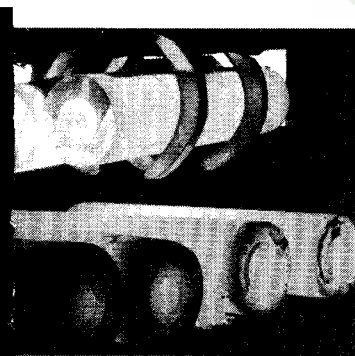
HEG is the largest integrated manufacturer and major exporter of Graphite Electrodes in India, with definitive efficiency and quality-led competitive status compared with global peers, enabled by the largest and one of the most modern manufacturing facilities in SE Asia and the Middle-East.

The Company also operates a Sponge Iron plant of 90000 MT capacity and a Waste Heat Recovery System (WHRS) based power plant generating 12.8 MW at Borai, near Durg (Chhattisgarh), and a Hydro Electric Power Generation facility at Tawa near Hoshangabad (Madhya Pradesh), with a rated capacity of 13.5 MW.

A premier Company of the LNJ Bhilwara Group, HEG was established in 1977 in technical and financial collaboration with Societe Des Electrodes Et Refractaires Savoie (SERS), a subsidiary of Pechiney of France. The collaboration ended in 1992 by which time the full technology was absorbed, and since then, HEG has grown rapidly.

Graphite Electrodes - An Introduction

Graphite Electrodes find their biggest industrial use in Electric Arc Furnaces (EAF) used in steel plants to melt steel scrap. The demand for Graphite Electrode is therefore sensitive not to steel prices but to steel production volumes through the EAF route, which is fast growing.

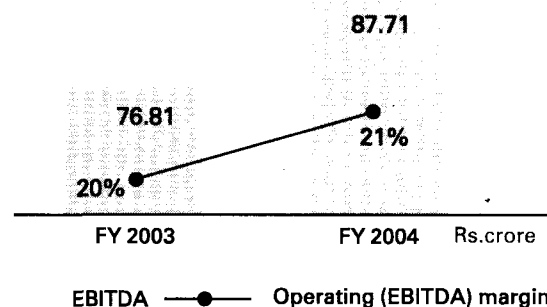
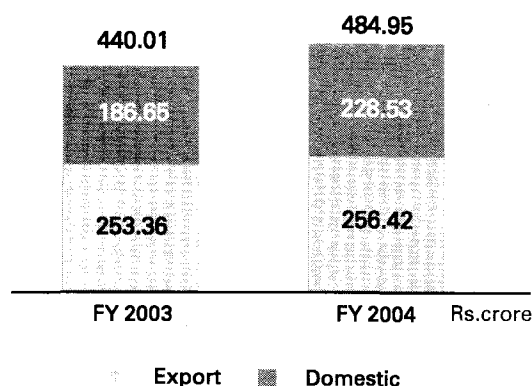


The manufacture of Graphite Electrode requires a high degree of technical competence and expertise, as it is a technology-intensive process that involves heat-treating non-graphitic carbon to temperatures upto 3000°C, with the quality of output being a key success factor. HEG is one of the few players that cater to the Graphite Electrode market worldwide and the Company is India's largest exporter of Graphite Electrodes, supplying its products to leading steel makers globally.

Graphite is a crystalline form of the element carbon. As against natural Graphite, which is a mineral form of Graphite that occurs in nature, synthetic or artificial Graphite is a man-made form and exhibits an exceptional combination of physical and chemical characteristics, permitting an extensive range of applications in many different areas. It possesses a very low electrical resistivity and has very high thermal shock resistance, making it the most suitable material for use as Electric Arc Furnace Electrodes.

■ ■ FINANCIAL HIGHLIGHTS

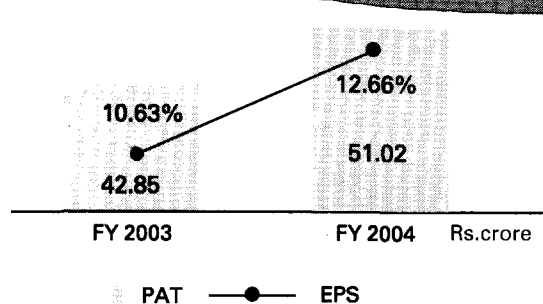
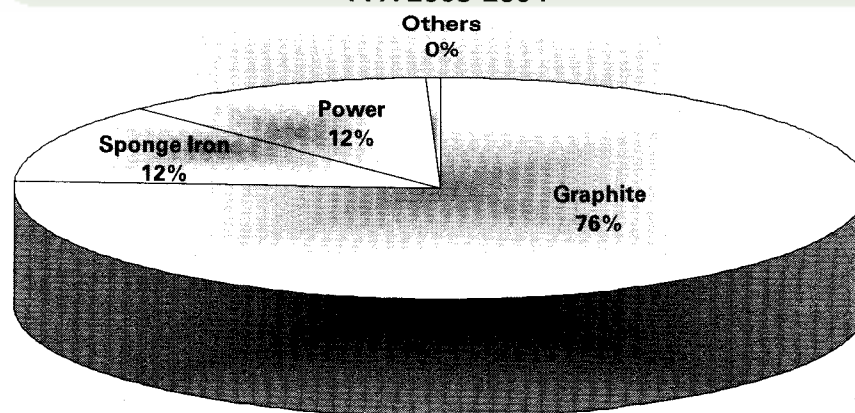
Performance of the erstwhile textile business at Rishabhdev, hived-off with effect from 1 April, 2003, has been excluded from the FY 2003 figures to make performances of both fiscal years, FY 2003 and FY 2004 comparable.



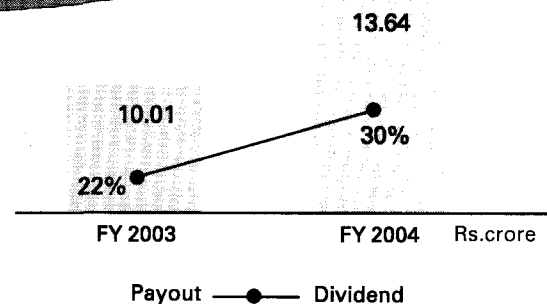
Growth in revenues driven by buoyancy in Graphite business

Focus on core operations and high level of efficiency management results in better operating margins

Segment Sales / Income F.Y. 2003-2004



Prudent financial management, combined with a positive sector outlook, drive earnings



Consistent dividend payouts: Enabling shareholders to participate in the Company's progressive performance



■ ■ MESSAGE FROM THE CHAIRMAN & MANAGING DIRECTOR

Dear shareowners,

I take immense pleasure in sharing with you the Company's performance during the fiscal year 2003-04 and the growth outlook going forward.

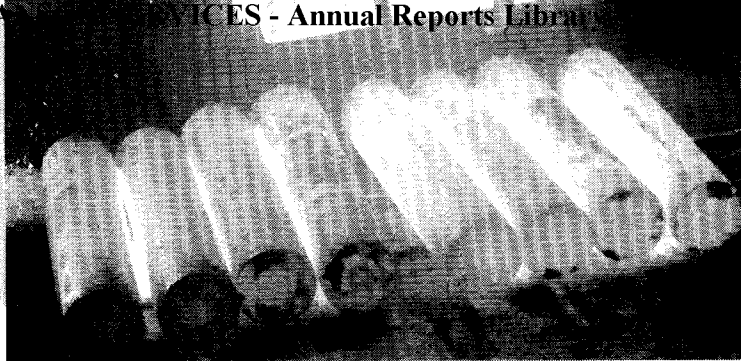
A year of growth and positive developments

Fiscal 2004 has been a year of significant growth for the Company. Buoyancy in the marketplace and an increasing demand for our products worldwide resulted in higher revenues and earnings during the year. At the same time, we implemented multiple initiatives aimed at further strengthening our leadership status within the industry, enhancing operating efficiencies and realigning our business operations to fit with our long-term growth strategy. These initiatives include the hive-off of the textile business and the decision to double our Graphite Electrodes capacity to participate in the growing demand for Graphite Electrodes worldwide.

Strong financial performance driven by focus on core business

HEG has delivered encouraging results during the year under review, led by a strong performance by the Graphite Electrodes business. The progressive performance during the FY 2004 is a strong endorsement of our strategy to focus on our core business of Graphite Electrodes, which is supported by our Power and Sponge Iron operations. Our renewed focus on the Graphite Electrodes business after the demerger of the non-related textile business and continued firmness in demand and prices in the international markets, backed by enhanced efficiencies and reduced cost of capital, resulted in a 37% increase in net profit for FY 2004.

The impressive results achieved by the Company in the face of fresh investments in capacity expansion, reduction in DEPB benefits and a strengthening rupee, confirm that we have the management depth, manufacturing capability, and financial resources to drive change and successfully implement long-term growth-oriented strategies. This has vindicated our decision for fresh investments in capacity expansion to reap the benefits of the growing Graphite Electrodes demand.



Continued healthy dividend payout

HEG has a track record of consistently rewarding its shareowners with healthy dividend payouts over the years and in that respect, FY 2004 is no different. The Board of Directors have recommended, subject to your approval, a dividend of 30% on equity shares of Rs. 10 face value, amounting to a total payout of almost Rs. 14 crore, which represents a payout ratio of around 27%. This is 36% higher than last year.

A bright outlook, enabled by competence and capability

FY 2004 has been a good year for the Company and the outlook for FY 2005 continues to be favourable. In order to sustain growth over the longer term, we have already initiated plans to expand our capacities as mentioned earlier, increasing it from 30000 MTPA to 52000 MTPA in the first phase of our capacity enhancement programme. We have created a global standing for ourselves and the demand and price drivers for the sector are positive. Given such an operating scenario and our confidence in our operations, I am positive about the outlook for the future.

Acknowledgement to all stakeholders

On behalf of the Board of Directors, I take this opportunity to express my sincere thanks to everyone who has supported the Company's tremendous development during this past fiscal year – that includes our customers, employees, and vendors as well as investors, shareholders, and creditors. We will continue to take advantage of the best opportunities for pursuing the Company's growth objectives and optimising the value of our shareholders' investment.

We understand that incremental value can be created only if we improve our performance on a year-on-year basis. To maintain the excitement and enthusiasm for the future we first need to deliver results, thereby gaining renewed momentum.

Ravi Jhunjhunwala
Chairman & Managing Director



■ ■ MESSAGE FROM THE EXECUTIVE DIRECTOR & CEO

Dear shareowners,

A progressive year

FY 2004 has been a very encouraging year for HEG. It represents the first complete year of the Company's operations as a focused Graphite Electrodes company, following the hive-off of the textiles business. The impact of the steps taken during the year, in implementation of our strategy to focus our energies and efforts on our core business of Graphite Electrodes, has been significant and immediate. Our Balance Sheet strengthened, with debt decreasing by around Rs. 38 crore. Our cash flows have increased and can now be gainfully employed in the profitable Graphite Electrodes business. I am glad with the results that we have delivered, but we remain more excited about our prospects going forward.

Buoyant sector outlook

Concurrent with our internal initiatives to streamline operations, improve efficiencies and maintain quality at world-class levels, there has been a definitive upturn in the Graphite Electrodes industry worldwide. The Electric Arc Furnace (EAF) route continues to gain ground, expected to account for almost half of all the steel produced in the world by 2010. At the same time, after a period of depressed prices due to the anti-trust proceedings against foreign players, Graphite Electrode prices are rising, indicating a clear trend towards the normalisation of prices. During FY 2004, Graphite Electrode prices increased by almost 10%, and all new contracts we are entering into are at better prices. I believe that as revenue inflows from new contracts accrue, a noticeable increase in realisations and earnings is likely to occur.

Increased operational efficiencies deliver higher profitability

Over the past few years, HEG has navigated a business development path marked by critical, future-focused groundwork – and some equally important on-the-job learning. The trend continued during FY 2004 as we deepened core competencies, engineered new, value-adding processes and products, and raised operating efficiencies to unprecedented levels. Our operating margins for the year reflect these initiatives, expanding from 17% in FY 2003 to 21% in FY 2004. Our net margins also improved significantly, from 7.5% last year to 12% in the year under review.

Responding to evolving market dynamics

HEG is an established player in a high opportunity, growing sector. Our position is based on the cost competitiveness and high quality standards of our products. With a view to further strengthen our position within the sector and get the most out of increasing demand, rising prices, and the diminished ability of cost-inefficient foreign players to compete in international markets, we are doubling our Graphite Electrode capacities in a phased manner. The added capacity will significantly enhance HEG's overall productivity and profitability, as the expanded Graphite Unit will have higher efficiency levels compared to the existing one on account of latest technology and low maintenance-related costs. Given the captive demand from its existing customers that the Company already has for Graphite Electrodes, the additional capacity will enable HEG to further explore new markets and initiate relationships with customers that had not been approached earlier due to capacity constraints, and also scale up business with existing customers, with limited price sensitivity.

Promising future

Focus on core operations and improved sector dynamics were the key drivers of our performance for the year. Given the cost and quality-led strengths of our Graphite Electrodes business and a strong sector outlook, we are enthusiastic about our performance in the coming year.

Thanking our stakeholders

It will be our endeavour, at all times, to better all our stakeholders expectations, adding to the excitement at our end and providing confidence and comfort to all our stakeholders. My note would be incomplete if I do not express my gratitude to our customers for their trust and confidence, our vendors for their support and partnership, our employees for their dedication and commitment and all our other business associates for their continued co-operation. And, of course, all our shareholders for their encouragement and motivation, which is of great value to the entire management team.

Ramesh C Surana
Executive Director & CEO

