



PROUD TO BE INDIAN
PRIVILEGED TO BE GLOBAL

Setting Benchmarks

Report  Junction.com



HEG Limited

Annual Report 2006-2007



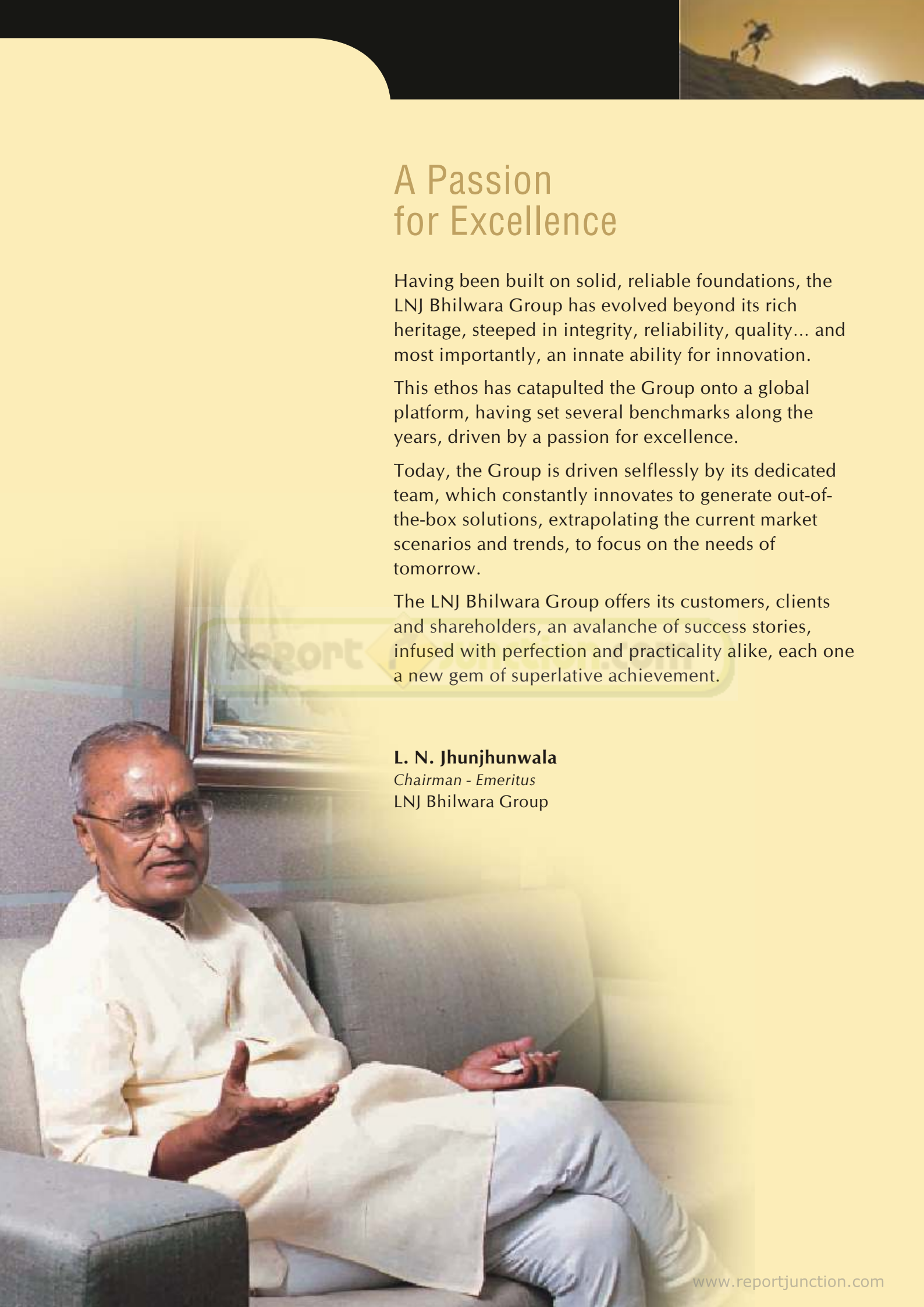
A Passion for Excellence

Having been built on solid, reliable foundations, the LNJ Bhilwara Group has evolved beyond its rich heritage, steeped in integrity, reliability, quality... and most importantly, an innate ability for innovation.

This ethos has catapulted the Group onto a global platform, having set several benchmarks along the years, driven by a passion for excellence.

Today, the Group is driven selflessly by its dedicated team, which constantly innovates to generate out-of-the-box solutions, extrapolating the current market scenarios and trends, to focus on the needs of tomorrow.

The LNJ Bhilwara Group offers its customers, clients and shareholders, an avalanche of success stories, infused with perfection and practicality alike, each one a new gem of superlative achievement.



L. N. Jhunjhunwala

Chairman - Emeritus
LNJ Bhilwara Group

Contents

Group Salient Features	2
Highlights of HEG	3
Chairman's Message	4-5
Executive Director & CEO's Message	6
Corporate Information	7
Management Discussion & Analysis	8-28
Directors' Report	29-31
Annexures to the Directors' Report	31-33
Report on Corporate Governance	34-40
Auditors' Report	41-43
Balance Sheet	44
Profit & Loss Account	45
Schedules	46-63
Cash Flow Statement	64-65
Balance Sheet Abstract	66





HEG Limited

Group Salient Features : 2006-07

Graphite Electrode / Steel



- HEG Limited

- HEG's 52,000 MT per annum, Graphite Electrode plant stabilised.
- HEG institutes LNJ Award for outstanding work in the field of Carbon.
- HEG initiated Rs. 110 crore Capex during the year.
- RSWM Limited is the new name for Rajasthan Spinning & Weaving Mills Ltd.
- RSWM has initiated a Rs. 900 crore expansion plan. Its Denim & Captive Thermal Power Plants are nearing completion.

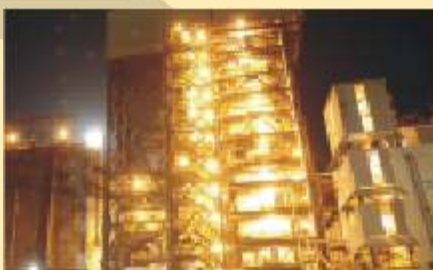
Textiles



- **RSWM Limited** (yarn, fabric, garments, technical textiles, Denim)
- **Maral Overseas Ltd.** (cotton yarn, fabric & knitted garments)
- **BSL Ltd.** (fabric - worsted, polyester & silk furnishing)
- **BMD Pvt. Ltd.** (automotive fabric)
- **Bhilwara Spinners Ltd.** (yarn)
- **Bhilwara Processors Ltd.** (process house)

- RSWM, Maral Overseas and BSL Limited expand their spindle capacities.
- RSWM was recently felicitated with Rajiv Gandhi National Quality Award.
- RSWM announced the acquisition of Cheslind Textiles Ltd., a Bangalore based textile unit.
- RSWM International B.V., Holland, incorporated, a 100% subsidiary of RSWM, executes a 50:50 JV with SISA S.A., Spain. The new JV entity is known as RSWM SISA.
- RSWM ropes in Salman Khan as brand ambassador for Mayur Suitings.
- Bhilwara Energy Limited incorporated as the Holding Company for the Group's power businesses.
- Bhilwara Energy Limited bags three Hydel Power projects in Arunachal Pradesh.
- Bhilwara Energy formalises agreement with Punjab State Electricity Board to develop and run a 75 MW power plant near Pathankot.
- MPCL becomes the first hydro power company in India to implement ERP.
- Bhilwara Scribe ranked amongst the top 5 BPOs in the Healthcare segment.

Power



- **Hydro Power Generation**
 1. **Bhilwara Energy Ltd.**
 2. **Malana Power Company Ltd.**
 3. **AD Hydro Power Ltd.**
- **Captive Power**
 1. Thermal
 2. Hydro
 3. Waste Heat Recovery
 4. Wind Energy
- **Power Consultancy**
 1. **Indo Canadian Consultancy Services Ltd.**

GROUP FINANCIAL HIGHLIGHTS

(Rs. in crore)

PARTICULARS	2004-05	2005-06	2006-07
Turnover	2049	2387	2859
Export Sales	893	1016	1361
PBIDT	274	374	434
PBDT	208	286	323
PBT	96	156	193
PAT	79	115	134
Gross Fixed Assets	2494	2922	3835
Net Worth	969	1382	1525

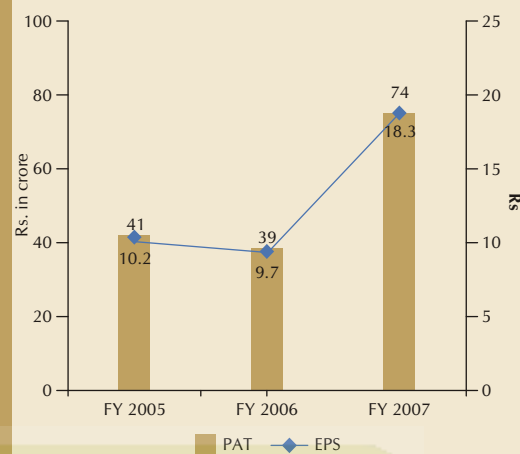


PROUD TO BE INDIAN
PRIVILEGED TO BE GLOBAL

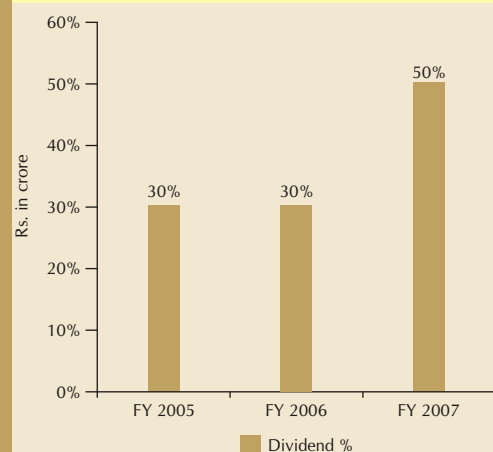
Highlights of HEG

Segments	Graphite	Power	Steel
Products / Utilities	Ultra High Power Graphite Electrodes	25 MW Thermal Power Plant	Steel Billets
	High Power Graphite Electrodes	13.5 MW Hydro Power Plant	Sponge Iron
	Graphite Specialties	12.8 MW Waste Heat Recovery System	
Location	Mandideep, Madhya Pradesh	Mandideep, Tawa, M.P., and Durg, Chhattisgarh	Durg, Chhattisgarh

Profit after Tax and EPS Performance



Dividend %





Chairman's Message



Ravi Jhunjhunwala
Chairman & Managing Director

Dear shareholders,

The Indian economy continues to experience robust growth performance on account of sustained consumer demand, strong corporate growth and industrial expansion. Going forward, the outlook for the economy remains positive, as foreign exchange reserves are rising, the annual growth rate is sustainable and capital markets are booming.

I expect the Indian economy to carry on its growth performance, but infrastructure and fiscal imbalances remain hurdles. The Government is working on remedying these facts and has set-up special economic zones which will result in better productivity, and drive investments in manufacturing Capex initiatives.

The Government is looking to give a long-term boost to the growth of the Indian economy by laying special emphasis on agricultural and rural

development, along with promoting education in the rural areas. Another welcome step is towards the lowering of peak custom duty, leading to anti-inflationary measures. On the negative side, there have been no measures to boost growth on the indirect and direct tax front. There were good reasons to reduce the CENVAT rates with revenues expected to be buoyant; there is also a need to move towards lowering goods and services tax rates in the next 3 years, as there is a strong probability that lower tax rates would yield higher revenues. Unless the dividend distribution tax rate is levied on the net dividends of a company, it will have a serious impact on new investments.

Even though it is a great time to do business in India, things would further improve if the Government realises the immense potential of stability and consistency in its fiscal policy, and in maintaining a firm stance in moving small policy positions around from time to time.

Moving on to our operations, the demand for graphite electrode in the Electric Arc Furnace (EAF) route of steel production continues to remain positive. Graphite electrode are used as a consumable in the EAF method of producing steel, which is growing at a faster pace (3%-4% every year) than the blast furnace route of steel production. The supply-demand scenario in the graphite electrode business is firmly in favour of electrode producers, as the rising demand for graphite electrode, combined with the fact that no new capacity additions are expected in the near future, are definite signs of further increase in graphite electrode prices.

After a Capex of Rs. 425 crore in the last 2 years, we have announced a further investment of Rs. 115 crore towards setting up a second 30 MW

Demand for Graphite Electrode strong; expected to remain upbeat on the back of increased steel production from the EAF route

Indian economy on a strong wicket



PROUD TO BE INDIAN
PRIVILEGED TO BE GLOBAL

thermal power plant in Mandideep, with a total Capex cost of Rs. 80 crore. This power plant will be in a position to benefit from the current power situation in the country, and also sometime in the future if we decide to further increase our graphite capacities, the additional power required can be met from this power plant. We have also allotted Rs. 35 crore towards de-bottlenecking in our graphite electrode operations, while expanding capacity in the re-baking division. This initiative will be completed towards the end of the current financial year and will increase our total graphite electrode capacity to 57,000 MT. Once commissioned, both these Capex plans will make an active contribution towards the earnings of your Company.

**Further Capex
planned in the rest
year for capacity
expansion to
57000 MT**

Our earlier Capex initiatives that increased the Company's capacities to 52,000 MT, have stabilised towards the end of FY2007, which was evident in the strong financial results reported in the last quarter of the year. The outlook for FY2008 is encouraging, as we expect to see the full benefits of the stabilised expanded capacities in the graphite segment. Higher needle coke (a major raw material in production of graphite electrode) prices should not affect our margins, as we have already booked a large portion of our Graphite Electrodes order book for FY2008 at considerably higher prices, which will more than compensate for the increase in needle coke prices. The revenues and earnings performance from our power business continues to remain strong. At the same time, our performance in the steel business was subdued, as we experienced higher iron ore price during the year. But during Q4 FY07, we turned around our performance in the steel business, on account of increased realisation from value-added sales in the steel business. Going forward, we expect to continue this positive turnaround in the steel segment.

With the above-mentioned positives, we are committed on delivering a robust operating and financial performance during FY2008.

In order to share our growth performance with our shareholders, the Board of Directors has recommended a higher dividend of 50% (Rs. 5 per share) for the year, as compared to 30% (Rs. 3 per share) in the previous year. This will amount to a total payout of Rs. 23.6 crore, which includes dividend tax. Going forward, the Company is confident of growing its operations further and has retained sufficient funds for future Capex plans, post distribution of dividend.

On behalf of the Board of Directors, let me take this opportunity to convey my sincere appreciation to all our customers, suppliers, employees, lenders and shareholders who have helped HEG to deliver a strong growth performance over the past year. We are focused on continuing our growth performance going forward, and are also keen on leveraging the momentum created over the past year.

Ravi Jhunhunwala
Chairman & Managing Director





Executive Director's & CEO's Message



Ramesh C. Surana
Executive Director & CEO

Dear shareholders,

Our performance during FY2007 has been very encouraging, with positive contributions from our Graphite Electrode and Power Generation businesses. In the Graphite Electrode segment, revenues improved as we experienced higher realisation and increased volume contribution from expanded capacities, which, I am happy to share with you, have stabilised towards the end of FY2007. Our Power segment continues to enjoy good growth, and in the Steel segment value-added sales from the new steel billets operations, contributed to revenue and profit growth.

The demand for Graphite Electrodes continues to remain positive. The higher demand scenario for Graphite Electrodes, will sustain a favourable price environment for HEG in the coming years. For FY2008, we have already nearly finished booking orders for graphite electrodes at significantly higher prices, when compared to electrode prices for FY2007.

As you all may already know, over the past few years needle coke prices have been rising, because of limited availability and rising oil prices. Needle coke is a key raw material used in the manufacture of graphite electrodes, and since it is a by-product of oil refineries, its prices are governed by crude oil prices which have been rising over the past few year. However, this will not affect our margins or operations, as increase in the realisation of graphite electrodes has outstripped the price increase for needle coke. I am also pleased to inform you that we have tied up our entire needle

coke requirement for FY2008, which includes needle coke needed for expanded capacities.

Our Power operations give us a strategic edge over our competitors, as power costs make up almost one third of our input costs for producing graphite electrodes. It is very important that we have access to cheap and reliable power throughout the year. Currently we are producing 51 MW of power from our three power plants, which include a 25 MW thermal power plant, a 13.5 MW hydro plant and a 12.8 MW waste heat recovery system (WHRS) power plant. Both the thermal and hydro power plants supply power to our graphite electrode operations, and the WHRS power plant supplies power to our steel billets business.

HEG's steel operations include our sponge iron, steel billets and WHRS power plant units. Our steel business is a fully integrated and independent manufacturing complex. Performance in the steel business was not in line with our expectations, because of higher-than-anticipated iron ore prices experienced during the year. However, during the last quarter of the year, we turned around our performance in this segment and reported positive earnings, as the Company benefited from higher realisation from the valued-added sales in the steel billets plant. We also gained from our high level of integration in the business.

The outlook for FY2008 remains positive, as we will be able to fully appreciate the benefits of stabilised expanded graphite capacities. We anticipate higher volumes and better realisations from our graphite operations. Our power generation business should continue to report strong performance, and with the turnaround in the steel business expected to carry on, we are set for a very strong operating and financial performance going forward.

To conclude, I would like to thank all our Directors, employees and business associates, for their continuous support and efforts in making HEG a strong graphite player in the domestic and international markets.

Ramesh C. Surana
Executive Director & CEO

**Revenue
increased on
higher realisation
& increased
volumes**

**Order book
for FY 2008
nearly booked**



PROUD TO BE INDIAN
PRIVILEGED TO BE GLOBAL

Corporate Information

BOARD OF DIRECTORS

L. N. Jhunjhunwala	<i>Chairman - Emeritus</i>
Ravi Jhunjhunwala	<i>Chairman & Managing Director</i>
Shekhar Agarwal	<i>Vice Chairman</i>
V. K. Mehta	<i>Director</i>
D. N. Davar	<i>Director</i>
K. N. Memani	<i>Director</i>
Kamal Gupta	<i>Director</i>
P. Murari	<i>Director</i>
R. C. Surana	<i>Executive Director & CEO</i>
N. Mohan Raj	<i>Nominee - LIC</i>
N. Mehta	<i>Alternate to V. K. Mehta</i>

Chief Financial Officer : *Ashish Tandon*

Company Secretary : *Raj Gopal Purwar*

BANKERS

1. State Bank of India
2. Punjab National Bank
3. HDFC Bank Ltd.
4. The Hongkong & Shanghai Banking Corp. Ltd.
5. Citibank N.A.
6. IDBI Bank Ltd.
7. ICICI Bank Ltd.
8. State Bank of Travancore
9. The Federal Bank
10. UCO Bank
11. IndusInd Bank
12. Landesbank Baden Wurttemberg, Germany
13. DEG, Germany

REGISTRAR

M/s. MCS Ltd.

Sri Venkatesh Bhawan, W-40, Okhla Industrial Area
Phase -II, New Delhi - 110020

List of Stock Exchange where the Company's securities are listed :

- Bombay Stock Exchange Ltd., Mumbai
- National Stock Exchange of India Ltd.
- M. P. Stock Exchange Ltd.
- Kolkata Stock Exchange Association Ltd.

Corporate Office

Bhilwara Towers, A-12, Sector - 1

NOIDA - 201301, U.P., India

Phone : +91 (0120) 254 1810

Fax : +91 (0120) 253 1648

Registered Office

Mandideep (near Bhopal),

Distt. Raisen - 462046,

Madhya Pradesh, India

Phone : +91 (07480) 233524 to 233527

Fax : -91 (07480) 233522

Mandideep Works

Graphite Electrodes & Thermal Power Plant

Mandideep (near Bhopal),

Distt. Raisen - 462046,

Madhya Pradesh, India

Phone : +91 (07480) 233524 to 233527

Fax : -91 (07480) 233522

Tawa Works

Hydroelectric Power

Village Ranipur, Tawa Nagar,

Distt. Hoshangabad - 461001,

Madhya Pradesh, India

Phone : +91 (07572) 272810, 272859

Fax : +91 (07572) 272849

Drug Works

Steel Billets & Waste Heat Recovery System

Borai Industrial Growth Centre,

Borai, Dist. Durg, Chhattisgarh - 491009, India

Phone : +91 (0788) 2617214-16

Fax : +91 (0788) 2617201





Management Discussion and Analysis

A Strong Economic Environment

The Indian economy continued to hold its position as one of the fastest rising economies in the world. India should be able to maintain this robust GDP growth on the back of strong growth in the manufacturing and service sectors. Going forward, the outlook for the economy remains positive with a few concerns on account of higher interest rates, continued inflation and unpredictable global economic environment.

During FY2007, the economy reported high GDP growth of 9.2% (Economic Survey 2006-07). Economic conditions in India are improving as per capita income is increasing, literacy rates are rising, aspiration levels are better and rapid urbanization is leading to higher demand and transformation in consumer preferences. Along with demand for basic goods, convenience and luxury goods demand is also growing at a rapid pace. With increase in both rural and urban incomes, this demand is expected to rise further.

Robust GDP growth of 9.2% during FY2007; outlook for economy to continue to remain positive

