

# THE SPIRIT OF CHALLENGE

HEG LIMITED | ANNUAL REPORT 2012-13



## Contents



06/07  
Corporate identity

09/09  
2012-13 in retrospect



10/12  
Statement from the chairman

28/33  
Directors' report

14/27  
Management discussion and analysis

35/43  
Corporate governance report



44/80  
Standalone financial statements

81/112  
Consolidated financial statements



# THE SPIRIT OF CHALLENGE

What does India's largest exporter of graphite electrodes do when the global steel industry slows down?

How does the World's largest single location integrated graphite electrode manufacturing facility respond when realisations decline?

It grows its business. Enhances value. And Responds to 'The Spirit of Challenge'.

The DNA of the LNJ Bhilwara Group.



# GROWING THE BUSINESS AT A TIME OF MODERATING DEMAND

IN 2012-13, GLOBAL ECONOMIC GROWTH DECLINED 80 BPS AND GLOBAL STEEL GROWTH MODERATED TO A LITTLE MORE THAN 1%. THE HEAT WAS FELT IMMEDIATELY BY ALL UPSTREAM SECTORS CATERING TO THE GLOBAL STEEL INDUSTRY.

As a prominent global graphite electrode manufacturer, HEG was not spared.

With moderating demand, a number of industry observers suggested that it would be best to reduce production.

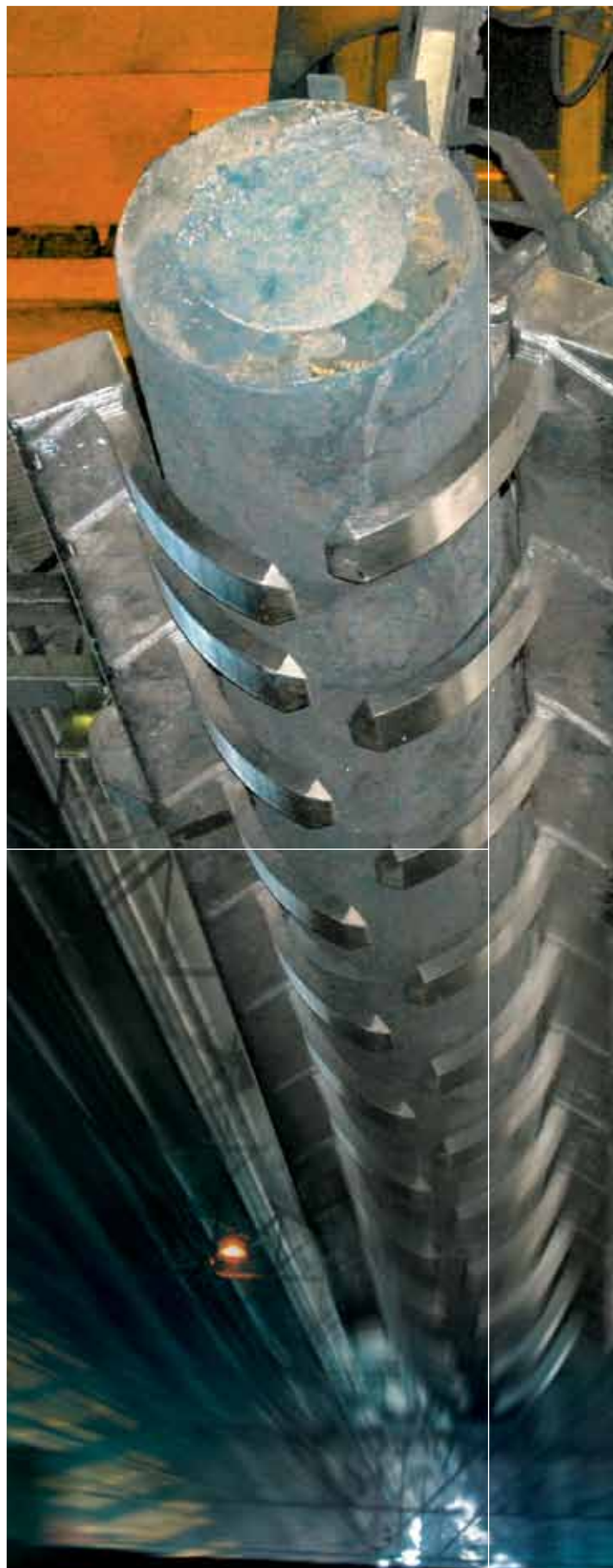
At HEG, we strategised otherwise. The Company responded to the challenge innovatively. It established new markets, increased its wallet share of existing clients and forged new customer relationships. So despite tough market conditions, the Company maintained realisations during the year under review.

The result was that even as the global steel sector grew 1.2% in 2012-13, HEG's revenues increased 14%, protecting its record of having grown every single year since 1977.

The spirit of challenge prevailed.



**14%**  
protecting its record of  
having grown every single  
year since 1977.





# GROWING MARGINS AT A TIME OF COST SQUEEZE

IN 2012-13, GRAPHITE ELECTRODE MANUFACTURERS SUFFERED DUE TO LARGE ADDITIONS OF CAPACITY WHICH ADVERSELY IMPACTED REALISATIONS.

There was a growing industry-wide consensus that the best way to beat this crisis was manufacture of cost-effective products that moved fastest in the marketplace and kept the Company's financials moving.

HEG chose to think differently. The Company focused on increasing the share of higher value products to protect its bottom line and utilised the prevailing opportunity to develop new sources for critical inputs for better sourcing in future

Besides, the Company embarked on critical energy-saving initiatives and changed the fuel mix used in the thermal power plant to optimise fuel cost. These measures strengthened profits of the thermal power business by 8% over 2011-12.

So even as the rest of the sector continued to suffer margin and profit erosion, HEG's EBIDTA and net margins climbed 80 bps and 220 bps respectively over 2011-12.



**220 bps**

HEG's EBIDTA and net margins climbed 80 bps and 220 bps respectively over 2011-12.



# MANAGING LIQUIDITY IN A CASH-STRESSED ENVIRONMENT

IN A CHALLENGING 2012-13 MARKED BY INCREASING COSTS, DECLINING OFF TAKE AND LENGTHENING RECEIVABLES, THE PRINCIPAL CASUALTY WAS WORKING CAPITAL LIQUIDITY.

Conventional sense demanded that we slash overheads and reduce our financial outgo.

HEG selected to think out-of-the-box instead. The Company broad-based relationships with financing partners. It added new banks to the term loan and working capital consortia. It communicated business realities faithfully and negotiated better. The result: the Company rationalised its average cost of working capital by 100 bps over the previous year.

Further, we sold our excess power generation (thermal and hydro), thereby strengthening our liquidity.



100 bps  
over the previous  
year.





HEG LIMITED  
ONE OF THE MOST COMPETITIVE  
GRAPHITE ELECTRODE MANUFACTURERS  
IN THE WORLD.

THE LARGEST SINGLE LOCATION  
GRAPHITE ELECTRODE FACILITY IN  
THE WORLD.

INDIA'S LARGEST GRAPHITE ELECTRODE  
EXPORTER.

GROWTH. IN GOOD TIMES AND BAD.



Net revenue (₹ crore)



EBITDA (₹ crore)



Profit after tax (₹ crore)



ISO 9001:2008 &  
ISO 14001:2004;  
OHSAS 18000:2007  
Certified

**80,000-TPA**  
graphite electrode capacity is  
located at Mandideep (near  
Bhopal, Madhya Pradesh) India.

**35**  
Footprint across countries.

**77MW**  
power generating capacity.

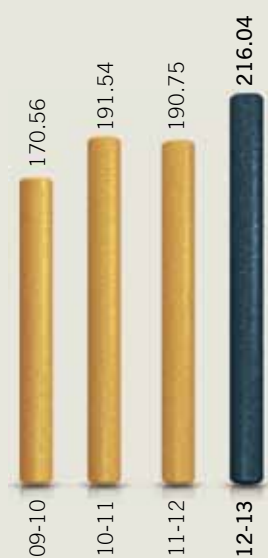
**Noida (NCR-Delhi)**  
Headquartered in India

## Vision

A vibrant globally acknowledged top league player in Graphite Electrodes and allied business with commitment to growth, innovation, quality and customer focus.

## Mission

To become a leading international player in Graphite Electrodes and allied business by leveraging our core competence and thereby enhancing value to our customers, shareholders, employees and society.



Book value (₹)



Reserves and surplus (₹ crore)



Gross Block (₹ crore)

# STRENGTHS



77

Power generating capacity (MW)

82

Exports as a percentage of sales

0.63

Debt-equity ratio



20

years

Winner of CAPEXIL export award

9

Global market share (%)

50

%

Proportion of sales to top-20 global consumers