HEG LIMITED

Annual Report 2016-17

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At HEG, we recognize

that crisis has a second fleeting face – opportunity!

At HEG, we realize

that hardships provide the best opportunity to introspect – always!

At HEG, we respect

adversities as prospects for strengthening our niche – continuously

Over the last 5 years, the graphite electrode industry faced a sustained downturn.

- Demand declined
- Prices plummeted
- Costs increased
- Inventories piled
- Margins moderated
- Companies reported losses
- Operations turned unviable
- Capacities shut globally

At HEG, we used the period well

- We revisited the basics; we asked ‘what if’ in place of ‘what now’
- We questioned the norm; we found doors in hitherto walls
- We did different things, we did things differently
- We worked in small teams; we rebuilt the organisation

Unearthing shopfloor opportunities

At HEG, we recognize that improving shopfloor efficiencies was the critical business imperative that promises to sustain business operations in good times and bad. We deep-dived into this challenge.

• **We infused energy into our team by replacing non-performers with efficient and energetic youth.**
The team size reduced by about 10% and per person productivity jumped by 16%.

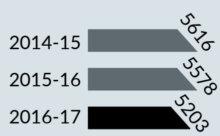
• **We altered man-machine performance monitoring system from a monthly basis to an hourly basis.**
Every shop had surplus empty days for predictive and preventive maintenance even as production increased; repairs and maintenance cost declined significantly.

• **We analysed our power requirement for every hour and made path-breaking alterations.**
Operations of one power plant was shut while the other was upped to 85% utilization; outsourced peak power in a planned and predictable manner on a daily basis.

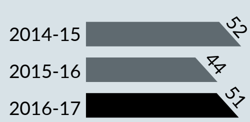
• **We walked the road less travelled for important plant operations.**
Shifted the process technology for some components which improved and optimized power and packing material consumption.

The results were exciting.
Our people became more productive. Our energy savings were considerably significant. Our wastages declined. Our in-process inventory was the lowest in our history despite increased production.

Energy consumption per tonne of electrode (unit)



Output per employee (tonnes)



Capitalising on deleveraging opportunities

At HEG, we figured out that recalibrating our financial leverage held considerable promise of improving business prospects. We resolved to maximize returns from every rupee invested in business.

• **We transformed our paper wealth into liquid funds.**
Focused on liquidating overdue export incentive claims which it realized ₹151 Crore during the last four years – it was primarily utilized in repaying debt.

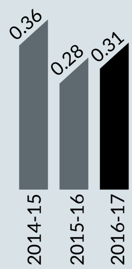
• **We moderated our working capital requirement.**
Maintained stable production regime daily – it cleared in-process and finished goods inventories; focused on collections.

• **We deployed organizational liquidity in business strengthening.**
Utilised cash surplus in deleveraging initiatives – we repaid loans cumulating ₹341 Crore in the last three years leading to 2016-17.

• **We lowered our borrowing costs.**
Negotiated with our business financiers, utilized low-cost funding options, replaced risky loans (dollar-denominated) with stable debt (rupee denominated) – our average cost of funds declined by 99 bps over the last three years.

As a result, our debt portfolio declined from ₹1024 Crore (April 1, 2014) to ₹683 Crore as on March 31, 2017.

Debt-equity ratio (x)

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