



IN THE  
**RIGHT**  
PLACE / AT THE  
**RIGHT**  
TIME



**HEG LIMITED**

50<sup>th</sup> ANNUAL REPORT **2021-22**

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### TIMING IS EVERYTHING.

Everyone realises the importance of time. But scarcely, people understand the significance of timing.

### IF YOU DO NOT TIME YOUR ACTIONS RIGHT, EVEN THE BEST ACTIONS GO TO WASTE.

At HEG, we respect time and the criticality of timing.

### WHEN WE STARTED OUR RECENT EXPANSION, MOST SECTORAL ONLOOKERS REMAINED SKEPTICAL OF OUR PROSPECTS.

Today, they realise and respect the accuracy of our vision and timing better.



# Decarbonisation

Climate change is the critical concern across the globe. Global warming is the hot topic being deliberated upon at powerful forums, in the aisles of power by people in the seat of power. The singular objective is to reduce carbon dioxide emissions into the atmosphere.

Transitioning to a 'Net-Zero' ecosystem has almost immediately emerged as the Call-to-Action for every nation, sector, enterprise and operating unit. To date, 197 countries have agreed to gradually reduce the use of fossil fuels and CO<sub>2</sub> emissions to reach net carbon neutrality by 2050.

4X

**Coming directly to the steel sector... our user sector.**

It's not out of place to mention that every tonne of steel produced by Blast Furnaces emits about 4 times more carbon in the atmosphere as compared to the same tonne of Steel produced thru Electric Arc Furnace.

It is becoming abundantly clear that steel-making going forward will utilise more and more of EAFs. Hence new and large Electric Arc Furnaces should see the light of day.

25+  
million mt

**And this is already happening.**

Large steel companies of the world, especially in US & Europe are establishing new EAF based Steel capacities of 25-30 million mt within next few years

This additional capacity will need 45-50,000 tonnes of Graphite Electrode. We are the only Graphite Electrode player in the western world who is expanding its capacity by 20,000 tonnes per annum which will come on stream in early 2023.





# ABOUT HEG LIMITED

The flagship of the LNJ Bhilwara Group, HEG Limited is engaged in manufacturing graphite electrodes.

Its manufacturing facility at Mandideep (Madhya Pradesh) is the world's largest single- location facility with the capability of producing UHP and HP variants.

About two-third's of the Company's production is exported to 35+ nations including some of the largest steel companies globally.

The Company also has power generation assets cumulating 76.5 MW (thermal and hydel) equipped to supply quality power for manufacturing graphite electrodes.

The Company is managed by a team of 300+ professionals rich in expertise in their areas of operations.

**80,000** mt going to **100,000** mt by Dec'2022  
Manufacturing capacity

**40%**  
Sales volume to Top 25 Global steel players (ex China)

₹/crore  
**2,281**  
Revenue in FY22

₹/crore  
**607**  
EBITDA in FY22

₹/crore  
**391**  
Net Profit in FY22

₹/crore  
**0**  
Long-term debt

₹  
**979**  
Book value per share

## VISION

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

## MISSION

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



# OUR ILLUSTRIOUS JOURNEY



From the Chairman's desk

**“WITH OUR FIVE DECADES OF EXPERIENCE IN ELECTRODE MANUFACTURING, WELL ESTABLISHED QUALITY AND WELL NURTURED MARKET, WE EXPECT TO BE A SUPPLIER OF CHOICE TO ALL OUR GLOBAL AND INDIAN CUSTOMERS.”**



*Dear Shareholders,*

I hope you and your family are safe and in good health.

It is a pleasure to share my thoughts through this narrative as India has set a firm footing on the path of progressive development.

#### **FY22 in retrospect**

A rapid increase in industrial activity across the globe contributed to higher-than-expected demand for steel and steel products all over the world. Let me throw in some numbers to put the trend in proper perspective.



In calendar year 2021, excluding China, the top 10 steel producing countries increased their steel production by about 13% over 2020. Large steel producing countries like the US, Japan, Germany increased their steel production by 18.3%, 15.7% and 12.3% respectively. We have not seen double-digit increases of this kind for quite some time now.

This jump in steel production was primarily due to China's unwavering focus on reducing carbon emissions. In keeping with this resolve, the world's largest steel producer has shut down its highly polluting Blast Furnace capacities to the tune of 125-150 Mn mt between 2015 and 2017. As a result, steel exports from China plummeted from about 115 Mn mt in 2016 to about 55 Mn mt in 2020. Subdued steel exports continued through 2021 and in the first 4 months of 2022. The resultant vacuum allowed other steel producers across the world to produce more steel. Interestingly, world over about 45-47% of steel is produced through the Electric Arc Furnace route which uses our products.

As a logical fallout, demand for our products increased. We achieved highest ever production and sales. Our topline grew by 75% over the previous year. The EBITDA jumped from ₹54 crore in FY21 to ₹607 crore in FY22 and we registered a turnaround at the bottomline – from a net loss of ₹25 crore in FY21 we earned a net profit of ₹391 crore in FY22.

Our stellar performance happened to coincide with the 50th year of our illustrious business journey. I'm very proud of our entire team at HEG, past and present, who left no stone unturned to bringing HEG to where it is currently standing.

#### FY23 and beyond

After a momentous FY22, we have stepped into an exciting phase in our business journey. I am optimistic of our future owing to what I am able to visualise.

Globally, the decarbonisation trend is expected to pan out steadily and gain momentum over the next few decades – as developed economies have pledged to transition to the Net-Zero (carbon emission) zone by 2050.

Since steel making through the blast-furnace route is considered high polluting, there will be a replacement of these assets with greener technologies. Currently, the EAF technology appears to be the preferred route. This structural change is already transpiring in some advanced economies.

In recent times, there have been a flurry of announcements that large global steel companies, especially in US & Europe plan to establish new EAF capacities cumulating to about 25-30 million mt which should be commissioned in the next few years.

I also expect more EAF capacities to be announced in future.

In India too, the continued thrust on infrastructure creation and

rapid industrialisation through large budgetary allocations and investment-friendly policies indicates the sustained focus of the Government in positioning India as a manufacturing hub for the world. It suggests that steel demand in India too would move northward.

All this points to one reality. Demand for graphite electrodes is expected to rise at a healthy uptick over the medium-term. While the demand scenario appears to be interesting, the supply-side ecosystem could be constrained as no western player has announced plans to increase their graphite electrode manufacturing capacity in the near future. Except one. **HEG.**

We had announced our 20,000 TPA capacity augmentation program in 2019. Currently, our new capacity is at an advanced stage of completion and should commence operations in early 2023. We are in the right place, at the right time to ride the opportunity wave – additional volumes coupled with healthy realisation. Moreover, if others global graphite electrode manufacturers also follow suit, it would take them about 3-4 years to commission their new capacity. It appears that we have a long runway.

I must appreciate the untiring efforts of the entire team, especially during the last two COVID years to make sure that we attain our targeted commissioning of the expanded capacity, more or less within the time period that we originally announced.

We have spent ₹800 crore up to March 31, 2022. We will invest the balance ₹400 crore in the current year. This is all being funded through internal accruals.

With our five-decade experience in electrode manufacturing, our well established quality, and local representation, we expect to emerge as a supplier of choice to all our global and Indian customers.

In closing, I thank my colleagues on the Board for their continued guidance in charting the Company's blueprint. I thank our business partners, financial institutions, government agencies all other stakeholders who have journeyed with us this far. We value your association and solicit your co-operation going forward. I also place on record my sincere appreciation to all our shareholders for their continued confidence and support.

Stay safe.

Warm regards

**Ravi Jhunjunwala**  
Chairman, MD & CEO

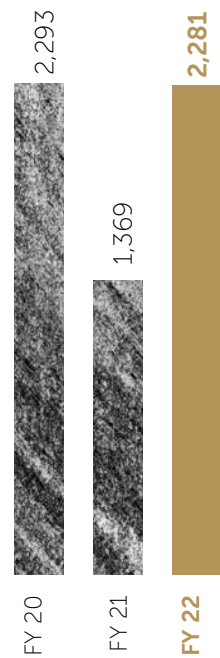




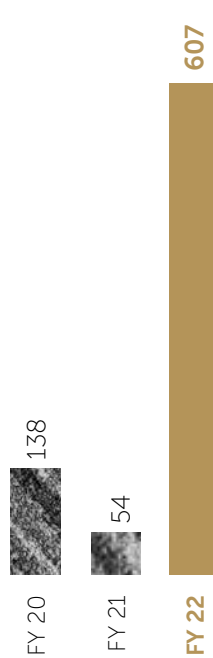
# KEY PERFORMANCE INDICATORS



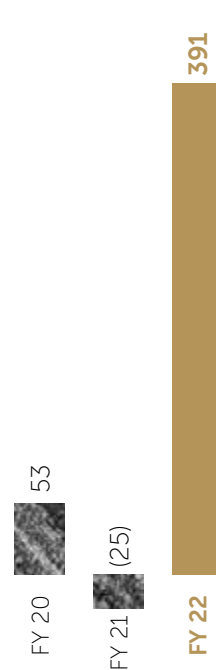
**Net Revenue**  
(₹ crore)



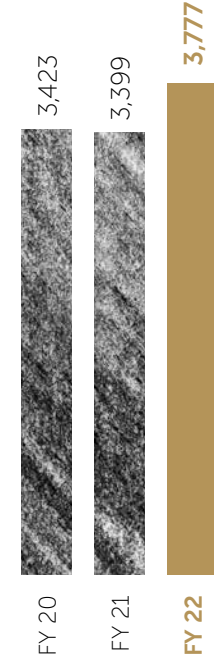
**EBITDA**  
(₹ crore)



**Net Profit**  
(₹ crore)



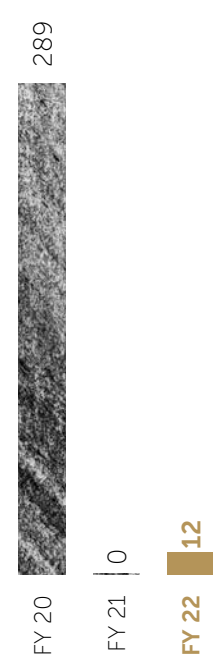
**Net Worth**  
(₹ crore)



**Earnings per share**  
(₹)



**Dividend payout**  
(₹ crore)



# MANAGEMENT DISCUSSION & ANALYSIS

## AN ECONOMIC OVERVIEW

**World economy:** 2021 was one of the better years for the economy as the world in unison declared an all-out war on the invisible enemy – the Covid-19 pandemic. Despite multiple waves of the pandemic hitting nations at different times of the year, every nation adopted a single theme – resurgence and progression.

Despite the huge loss in lives and livelihoods across the world, the economy progressed at a healthy uptick. Driven by robust consumer spending and uptick in investment, with trade crossing pre-pandemic levels, global economy expanded by 6.1% in 2021 – the highest growth rate achieved in more than a decade after the great recession hit the world.

Global trade reached a record high of US\$28.5 trillion in 2021, a jump of 25% over the previous year. Trade in services also increased by US\$50 billion to reach US\$1.6 trillion, just above pre-pandemic levels.

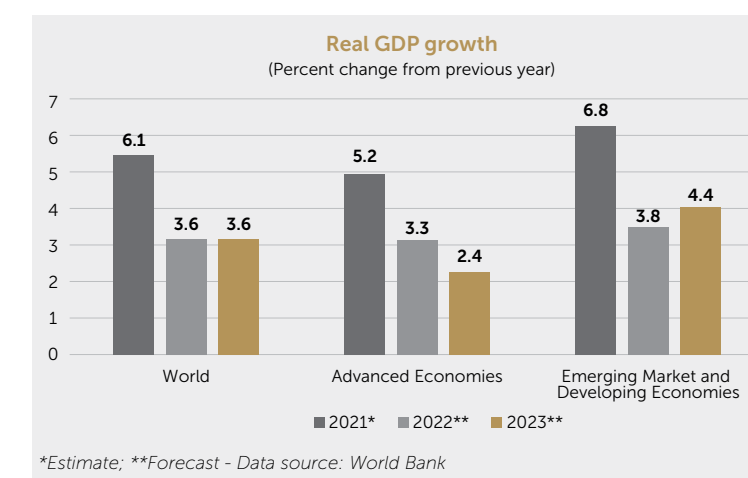
The recovery was uneven across the globe. Advanced economies recovered handsomely owing to the fiscal support, and accelerated vaccination drives. However, emerging economies & developing nations (EMDE) are completely different story altogether. A deeper impact from the pandemic, slower vaccine rollout, little policy support and persistent output loss marked the economies of EMDE. This loss was partially compensated by some solid near-term prospects in commodity exporting countries.

**Going forward:** Global economy is expected to grow at 3.6% in 2022, reflecting continued covid resurgence, reduced monetary support, ongoing logistics bottlenecks, inflation and geo-political turmoil. However, output and investments in advanced economies are projected to reach pre-pandemic level, but in EMDEs they may remain below owing to lower vaccination rates and tightening monetary policy. Positive growth rates are likely in both goods and services and efforts to shorten supply chain and diversified suppliers could mark the trade practices in 2022.



**India economy:** India shone as the shining star in the global economic landscape as it emerged as the fastest growing major economy in the world. From a GDP contraction of 6.6% in FY21, India rebounded sharply to register an 8.9% growth in its GDP in FY22. This was primarily owing to the government thrust on vaccination and ensuring adequate availability of vaccines, financial support by the government, waning of the fear from the pandemic, opening up of trades and services in most of the sectors.

Economic resurgence was supported by all the sectors – the agriculture and allied sector grew by 3.9%, the industrial sector grew by 11.8% while the services sector upped by 8.2%.



[Source: World Bank, Statista, United Nations Conference on Trade and Development]

Estimates suggested that exports will touch US\$670 billion in FY22, which will position the nation among the top-10 exporters globally in value terms. Despite this jump, India's mercantile trade deficit increased by 55% owing to high crude oil prices and a spike in prices of metals and other inputs. In addition, the inventory build-up by India Inc. to pre-empt supply-chain disruptions on account of the Ukraine war added to the deficit.

New investment and ordering activity witnessed a healthy rise in FY22. New investment announcements by the private sector saw a 145-150% rise in FY22 as compared to FY21. This was owing to megaproject announcements, especially in the steel sector.

Going forward, The Reserve Bank of India estimates India's GDP to grow by 7.2% in FY23 in keeping with the challenges emanating out of prevailing geo-political tension. This will position India as the fastest growing major economy in the world.

In its effort to provide an impetus to the "Make in India" initiative, the government introduced PLI schemes for 13 sectors in FY21, at a proposed incentive outlay of US\$26.7 billion. This excludes the PLI scheme for the semiconductor sector.