HEG Ltd (HEG)

ICICI Direct

CMP: ₹ 530 | Target: ₹ 615 (16%) | Target Period: 12 months | BUY

August 5, 2025

Long term investment thesis remains unchanged...

About the stock: HEG is one of the leading graphite electrode manufacturers in India and a key exporter with ~65%- 70% of production exported to global markets.

- Graphite electrode production capacity of 100,000 ton in Madhya Pradesh.

Q1FY26 Results: HEG reported steady performance in Q1FY26. On standalone basis, Topline for the quarter stood at ₹613 crore (up 7% YoY, 14% QoQ). EBITDA for the quarter stood at ₹106 crore with EBTDA margins at 17.3% (vs 19.5% in Q4FY25-excl one-time net loss of ₹153 crore due to MTM on Graftech investment). Reported PAT stood at ₹72 crore (include ₹37 crore gain on MTM investment).

Investment Rationale:

- **Announces fresh capacity expansion amidst global EAF shift and peer plant closures:** With the global decarbonization push, steelmakers are shifting to Electric Arc Furnace (EAF) route of steelmaking, emitting 75% less emissions than Blast Furnace route. Industry sources indicate >100 million tons of EAF capacity addition (ex-China) by FY30, potentially driving ~2 lakh tons of incremental graphite electrode demand vs the current industry size of ~6.3 lakh tons. Moreover, the recent plant closures by industry players totalling ~1.2 lakh tons (~16% of global capacity ex China & Russia) are expected to support graphite electrode prices. With such tailwinds in place, HEG, being one of the top five global graphite electrode producers, is expanding its graphite electrodes capacity by 15k tons, reaching 1.15 lakh tons by the end of Jan'28 at capex cost of ~₹650 crores. Building in positives, HEG's utilization is expected at 86%/90% for FY26E/FY27E, respectively on its existing capacity of ~1 lakh tonne.

- **HEG's Demerger paves the way for green tech growth & value creation:** HEG is executing a strategic demerger to create two listed entities: HEG Graphite (electrodes) and HEG Greentech (clean technologies). HEG Greentech will include Bhilwara Energy (power) and TACC, which is setting up 20,000-ton graphite anode facility with ~₹1,850 crore investment, commission by March'27. This positions HEG to tap into growing demand for lithium-ion batteries, with ~150–160 GWh projected demand by 2030, requiring ~1.4 lakh tons of anode material. The project is expected to deliver robust returns with 25%+ EBITDA margins and ~20%+ ROCE. HEG Greentech will also venture into new areas like pet bottle recycling (resins), graphene, and advanced battery systems supported by a ₹250 crore investment from Singularity AMC, thus, positioning HEG for long-term growth in sustainable tech. This we believe will unlock value for investors.

Rating and Target Price

- We maintain our positive view on HEG amid ongoing global shift towards EAF route of steelmaking and industry consolidation. We reiterate a **BUY** rating with a revised target price of **₹615** thereby valuing it on SoTP basis, i.e. 10x EV/EBITDA to core graphite electrode business, 2x P/B on equity investment in BEL, 2x on other long-term investments and 2x CWIP to graphite electrode and anode business, all on FY27E.

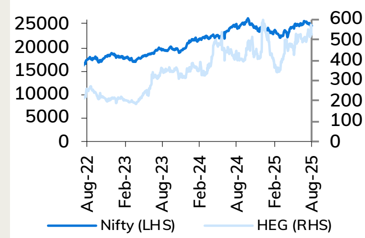
Particulars

Particulars	₹ crore
Market Capitalisation	10,229
Total Debt (FY25)	585
Cash & Investments (FY25)	463
EV (₹ crore)	10351
52 Week H/L (₹)	620 / 332
Equity Capital (₹ crore)	39
Face Value (₹)	2.0

Shareholding pattern

	Sep-24	Dec-24	Mar-25	June-25
Promoter	55.8	55.8	55.8	55.8
FII	6.9	7.1	7.2	7.3
DII	12.8	12.1	11.7	11.6
Other	24.5	25.1	25.4	25.3

Price Chart



Recent event & key risks

- Posted steady Q1FY26 result. Announces capacity addition of 15,000 tons in graphite electrode space with capex cost of ~₹ 650 crore.

- Key Risk: (i) global delay in capacity shift towards EAF route, impacting demand (ii) export volumes uncertainty amid prolong tariff issues.

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Company Update

ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials (₹ Crore)	FY21	FY22	FY23	FY24	FY25P	5 year CAGR (FY20-25)	FY26E	FY27E	2 year CAGR (FY25-27E)
Net Sales	1,256.2	2,201.6	2,467.2	2,394.9	2,152.7	0.0%	2,505.4	3,136.4	20.7%
Reported EBITDA	-59.1	527.2	619.7	384.0	351.5	NA	506.9	838.7	54.5%
Adjusted PAT	-25.3	390.6	455.5	231.6	191.9	29.2%	239.5	458.2	54.5%
Adjusted EPS (₹)	-1.3	20.2	23.6	12.0	5.2		12.4	23.7	
EV/EBITDA (x)	NA	11.1	10.0	26.4	29.4		21.4	13.7	
RoCE (%)	-0.5	11.9	13.0	4.4	3.2		5.6	9.8	
RoE (%)	-0.7	10.3	11.2	5.6	4.6		5.5	9.7	

Source: Company, ICICI Direct Research

Key Takeaways of Recent Quarter

Q1FY26 Results: Reported a Tad Muted performance

- On standalone basis, Topline for the quarter came in at ₹613 crore (up 7% YoY, 14% QoQ). Capacity Utilisation of Graphite electrode plant (expanded capacity of 1 lakh ton) stands at ~90% in Q1FY26. Standalone gross margins declined by 274 bps to 58.5% in the quarter.
- EBITDA for the quarter came in at ₹106 crore with corresponding EBTDA margins at 17.3% (vs 19.5% in Q4FY25 which is excluding one-time net loss of ₹153 crore owing to MTM on company's investments in Graftech).
- Reported PAT stood at ₹71.8 crore, down 22% QoQ (including one-time gain of ₹31 crores due to MTM company's investment in Graftech).

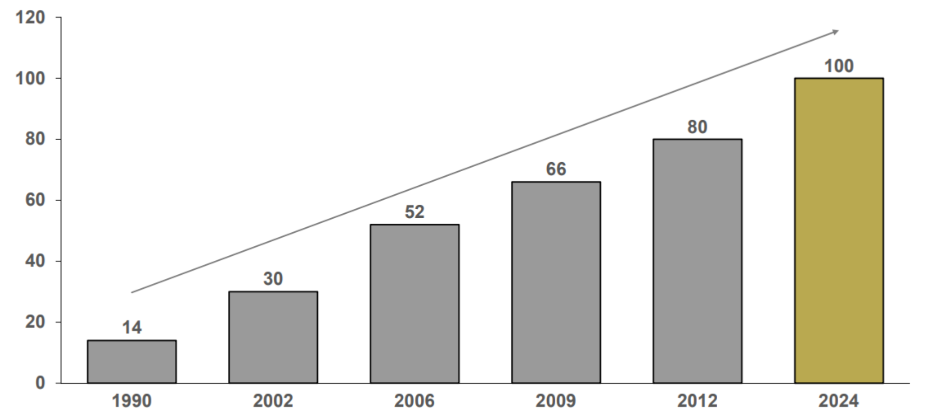
Q1FY26 Earnings Conference Call Highlights:

- **Graphite Electrode Industry:** HEG witnessed weak graphite electrode demand in H1CY25, However, the long-term growth outlook remains positive, with ~100 MT of new greenfield capacities for EAFs announced globally (ex-China), expected to become operational by 2030, potentially leading to incremental demand of up to 2 lakh tons. Notably, ~11 MT is already operational, and another 50 to 55 MT is expected to be commissioned by 2027.
- **Graphite Electrode Pricing:** HEG is currently witnessing stable graphite electrode pricing on a sequential basis, with only the US region experiencing a ~10% price increase. In other regions, prices largely remain flat. Meanwhile, needle coke prices have also remained mostly flat during the quarter. It expects graphite electrodes pricing to recover once industry-wide utilization surpasses 80% (vs the current industry utilisation of ~65%).
- **Capacity Expansion:** HEG has announced a capacity expansion plan to add 15,000 tons of graphite electrode capacity, increasing its total capacity to 1,15,000 tons by the end of FY28. The total capex for this project is ₹650 crore, to be funded through a mix of debt and internal accruals. The project is expected to generate a double-digit IRR, with a payback period of 4 to 5 years.
- **HEG Greentech:** HEG Greentech, comprising the Hydropower project (in Himachal Pradesh) and the Repower project, is expected to generate revenue of ₹500 to 600 crore and EBITDA of ₹200 to 250 crore in FY26. The other stream of business, the graphite anode facility, is expected to come on stream by FY28.
- **US Tariffs**: HEG is currently evaluating the impact of the 25% US tariff on graphite electrodes, given its ~10% revenue exposure to the US market. However, as per the company, the impact is likely to be minimal given it has diversified revenue stream across regions.

HEG expects capacity utilization for the remainder of FY26 to ~85%, with EBITDA margins expected to remain at similar levels for Q2FY26 as reported in Q1FY26.

HEG will be commissioning 20,000 tonnes of anode capacity by March'27, with the total capex of ~₹1,850 crores. Within this, the equity infusion is ₹750 crores. Additionally, the company expects to receive NCLT approval for the demerger by the end of 2025.

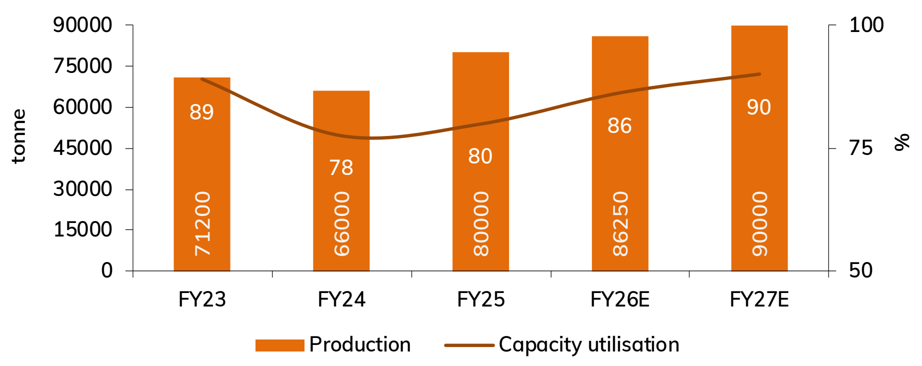
Exhibit 1: Graphite Electrode Capacity Build Up at HEG (in '000 MT)



Source: Company, ICICI Direct Research

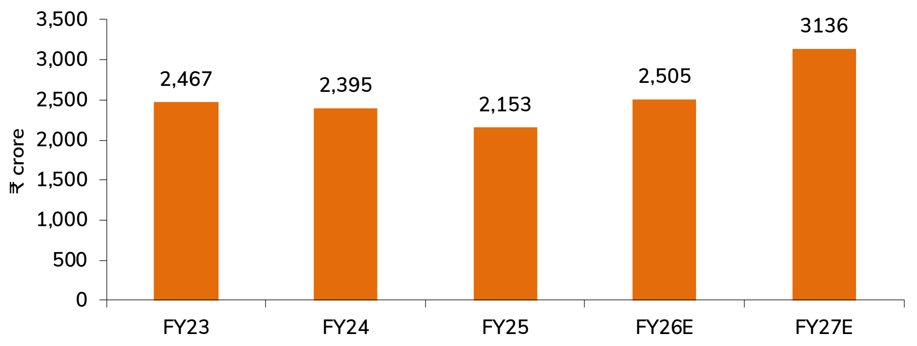
Financial Story in Charts

Exhibit 2: Capacity Utilisation trend at HEG



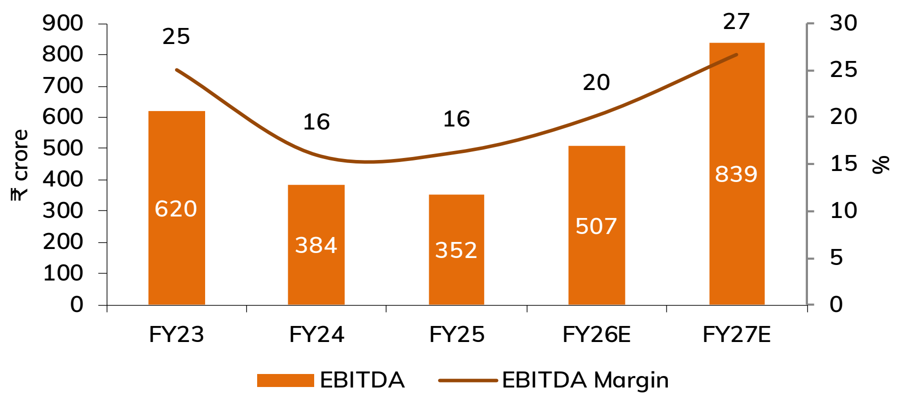
Source: Company, ICICI Direct Research; for FY24 the capacity is weighted average for 80,000 – 9M'24 and 1,00,000 – 3M'24

Exhibit 3: Topline trend



Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margins trend



Source: Company, ICICI Direct Research

Exhibit 5: Valuation table

Valuation table	Amount
FY27E EBITDA (₹ crore)	839
EV/EBITDA Multiple (x)	10
EV (₹ Crore)	8,387
Net Debt (₹ crore)	1,238
2x P/B Bhilwara Energy Equity Invst. (₹ crore)	614
2x P/B Other long term investments	459
2x Capex to new Anode & GE Plant (2x P/B, ₹ crore)	3,643
HEG Implied Equity Value (₹ crore)	11,865
No. of Shares (crore)	19
Target Price (₹)	**615**
CMP (₹)	530
Upside	16%

Source: Company, ICICI Direct Research

We have a positive view on HEG, driven by the global transition towards the EAF steelmaking route and the company's volume growth backed by capacity expansion. We recommend a BUY rating with a target price of ₹615 thereby valuing it on SoTP basis, i.e. 10x EV/EBITDA on core graphite electrode business, 2x P/B on equity investment in BEL, 2x P/B on other long-term investments and 2x CWIP to graphite electrode and anode business, all on FY27E.

Financial Summary

Exhibit 6: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Total Operating Income	2,395	2,153	2,505	3,136
Growth (%)	-3	-10	16	25
Raw Material Expenses	1151	904	1016	1244
Employee Expenses	95	97	113	125
Other expenses	765	800	870	928
Total Operating Expenditure	2011	1801	1998	2298
EBITDA	384	352	507	839
Growth (%)	-38	-8	44	65
Depreciation	175	201	220	238
Interest	36	39	45	65
Other Income	142	127	74	77
PBT	315	238	317	612
Exceptional Item	0	-91	0	0
Total Tax	84	47	77	154
Reported PAT	232	101	240	458
Adjusted PAT	232	192	240	458
Growth (%)	-49	-17	25	91
EPS (₹)	12	5	12	24

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Profit/(Loss) after taxation	232	192	240	458
Add: Depreciation & Amortization	175	201	220	238
Sub: Other Income	-142	-127	-74	-77
Net Increase in Current Assets	246	-13	-204	-350
Net Increase in Current Liabilities	-30	-50	67	110
CF from operating activities	480	203	249	380
(Inc)/dec in Investments	-330	-235	500	175
(Inc)/dec in Fixed Assets	-317	-146	-1000	-1100
Add: Other Income	142	127	74	77
CF from investing activities	-506	-254	-426	-848
Inc / (Dec) in Equity Capital	0	0	0	0
Inc / (Dec) in Loan	-122	-35	200	600
Dividend & Dividend Tax	-164	-87	-48	-97
Others	12	-92	0	0
CF from financing activities	-273	-213	152	504
Net Cash flow	-299	-265	-26	35
Opening Cash	682	383	118	92
Closing Cash	383	118	92	127

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet ₹crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Liabilities				
Equity Capital	39	39	39	39
Reserve and Surplus	4,106	4,121	4,312	4,674
Total Shareholders funds	4,145	4,159	4,351	4,712
Total Debt	619	585	785	1385
Deferred Tax Liability	96	94	94	94
Non Current Liabilities	10	11	11	11
Total Liabilities	4,871	4,849	5,241	6,202
Assets				
Gross Block	3,128	3,414	3,614	3,714
Less: Acc Depreciation	1,346	1,513	1,732	1,970
Net Block	1,782	1,901	1,881	1,743
Capital WIP	194	21	821	1,821
Total Fixed Assets	1,977	1,922	2,703	3,564
Investments	996	1,231	731	556
Inventory	1,194	1,255	1,369	1,574
Debtors	508	440	515	644
Loans and Advances	167	172	182	192
Other Current Assets	191	208	213	218
Cash	383	118	92	127
Total Current Assets	2,444	2,192	2,370	2,755
Creditors	425	398	445	545
Other Current Liab. (incl Prov.)	121	98	118	128
Current Liabilities & Prov	546	496	563	673
Net Current Assets	1,898	1,696	1,807	2,082
Others	-	-	-	-
Application of Funds	4,871	4,849	5,241	6,202

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Per share data (₹)				
EPS	12	5	12	24
BV	215	216	225	244
DPS	4.5	1.8	2.5	5.0
Cash Per Share	20	6	5	7
Operating Ratios (%)				
EBITDA margins	16.0	16.3	20.2	26.7
PBT margins	13.2	11.1	12.6	19.5
Net Profit margins	9.7	8.9	9.6	14.6
Inventory days	217	254	250	250
Debtor days	77	75	75	75
Creditor days	135	161	160	160
Return Ratios (%)				
RoE	5.6	4.6	5.5	9.7
RoCE	4.4	3.2	5.6	9.8
RoIC	5.0	3.3	6.8	14.5
Valuation Ratios (x)				
P/E	44.2	101.0	42.7	22.3
EV / EBITDA	26.4	29.4	21.4	13.7
EV / Revenues	4.2	4.8	4.3	3.7
Market Cap / Revenues	4.3	4.8	4.1	3.3
Price to Book Value	2.5	2.5	2.4	2.2
Solvency Ratios				
Debt / Equity	0.1	0.1	0.2	0.3
Debt/EBITDA	1.6	1.7	1.5	1.7
Current Ratio	4.5	4.4	4.2	4.1
Quick Ratio	2.3	1.9	1.8	1.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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