HEG Ltd. (HEG)

CMP: ₹ 550 | Target: ₹ 635 (15%) | Target Period: 12 months | BUY

February 18, 2026

Cost efficiencies drive margins; steady growth ahead...

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.

Q3FY26 Results: HEG reported healthy performance in Q3FY26. On standalone basis, Revenue for the quarter came in at ₹656 crore (up 37% YoY, down 6% QoQ). EBITDA stood at ₹143 crore with EBTDA margins at 21.8%, up 480 bps QoQ. Reported PAT stood at ₹141 crore (include ₹63 crore gain on MTM investment).

Investment Rationale:

- **Global EAF shift and capacity rationalisation underpin long-term structural tailwinds for HEG:** With the global decarbonization drive gaining momentum, steel producers are increasingly shifting toward the Electric Arc Furnace (EAF) route, which emits ~75% lower carbon compared to the Blast Furnace method. Industry estimates indicate that ~110 million tons of EAF capacity could be added globally (ex-China) by FY30, translating into incremental graphite electrode demand of ~2 lakh tons over the current industry size of ~6.3 lakh tons. While near-term headwinds persist due to subdued global steel production and muted electrode pricing, the medium-term outlook remains constructive, supported by permanent shutdowns of ~1.2 lakh tons of graphite electrode capacity (~16% of global capacity excluding China & Russia). Leveraging this, HEG, among the top five global electrode manufacturers, is expanding capacity by 15,000 tons, taking total capacity to 1.15 lakh tons by end-2027, with a capex of ~₹650 crore. Consequently, HEG's existing 1 lakh ton capacity is expected to operate at ~89/94/96% utilization in FY26/27/28E.
- **Demerger to unlock value and accelerate green-tech growth:** HEG is undertaking a strategic demerger to form two listed entities: HEG Graphite (graphite electrodes) and HEG Greentech (clean energy ventures). HEG Greentech will house Bhilwara Energy (power) and TACC, which is developing a 20,000-ton graphite anode facility with an investment of ~₹2,250 crore, targeted for commissioning in Q1FY28. This aims to capitalize on expanding lithium-ion battery ecosystem, where India's demand is expected to reach ~120-140 GWh by 2030, implying ~1.4 lakh tons of anode material requirement. This is projected to deliver +25% EBITDA margins and +20% ROCE. In addition, HEG Greentech is scaling up Battery Energy Storage Solutions (BESS) capacity to 6 GWh and targeting RE Power generation 2.2 GWh BESS + 0.8 GWp solar capacity in FY27. The cumulative capex for overall venture is ~₹7,700 crore through FY30, funded at a 30:70 equity-debt mix. Alongside a ₹500 crore strategic investment from Singularity AMC, the demerger meaningfully strengthens HEG's positioning for long-term value creation in sustainable technologies.

Rating and Target Price

- We maintain a positive view on HEG, supported by the global transition toward EAF-based steelmaking and capacity expansion led growth prospects ahead. We reiterate a **BUY** rating with a revised target price of **₹635**, 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 Capex to anode business, all on FY28E.

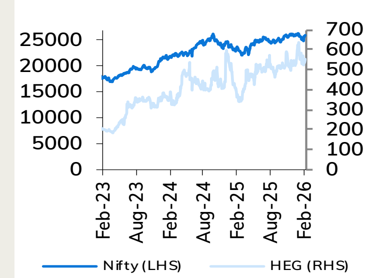
Particulars

Particulars	₹ crore
Market capitalisation	10,614
Total Debt (FY25)	585
Cash & Investment (FY25)	1,349
EV (₹ crore)	9,849
52 week H/L (₹)	672 / 336
Equity capital (₹ crore)	19.3
Face value (₹)	2.0

Shareholding pattern

	Mar-25	June-25	Sep-25	Dec-25
Promoter	55.8	55.8	55.8	56.1
FII	7.2	7.3	8.0	8.5
DII	11.7	11.6	12.0	12.2
Other	25.4	25.3	24.3	23.2

Price Chart



Recent event & key risks

- Posted healthy Q3FY26 result. Reported ~90% of utilisation in 9MFY26 (vs 80% in FY24).
- Key Risk: (i) global delay in capacity shift towards EAF route, impacting demand (ii) higher than expected rise in needle coke prices impacting margins

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Manisha Kesari
manisha.kesari@icicisecurities.com

Key Financial Summary

Key Financials	FY22	FY23	FY24	FY25	5 year CAGR (FY20-25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-28E)
Net Sales	2,202	2,467	2,395	2,153	0.0%	2,661	2,965	3,456	17.1%
EBITDA	527	620	384	352	NA	528	673	827	33.0%
EBITDA Margins (%)	23.9	25.1	16.0	16.3		19.8	22.7	23.9	
Net Profit	391	456	232	101	NA	307	327	409	59.2%
EPS (₹/share)	20.2	23.6	12.0	5.2		15.9	17.0	21.2	
P/E	27.2	23.3	45.8	104.8		34.6	32.4	26.0	
RoNW (%)	10.3	11.2	5.6	0.9		7.0	7.0	8.1	
RoCE (%)	9.9	10.5	4.3	3.1		5.9	7.0	8.4	

Source: Company, ICICI Direct Research

Company Update

ICICI Securities – Retail Equity Research

Key Takeaways of Recent Quarter

Q3FY26 Results: Reported a Healthy performance

- On standalone basis, Topline for the quarter came in at ₹656 crore (up 37% YoY, down 6% QoQ). Capacity Utilisation of Graphite electrode plant (expanded capacity of 1 lakh ton) stands at 85% in Q3FY26.
- Standalone gross margins increase by ~240 bps to 60% in the quarter. EBITDA for the quarter came in at ₹143 crore with corresponding EBTDA margins at 21.8%, up 480 bps QoQ.
- Reported PAT for the quarter came in at ₹141 crore, up 8% QoQ (includes one-time gains of ₹63 crore from MTM investment in Graftech).

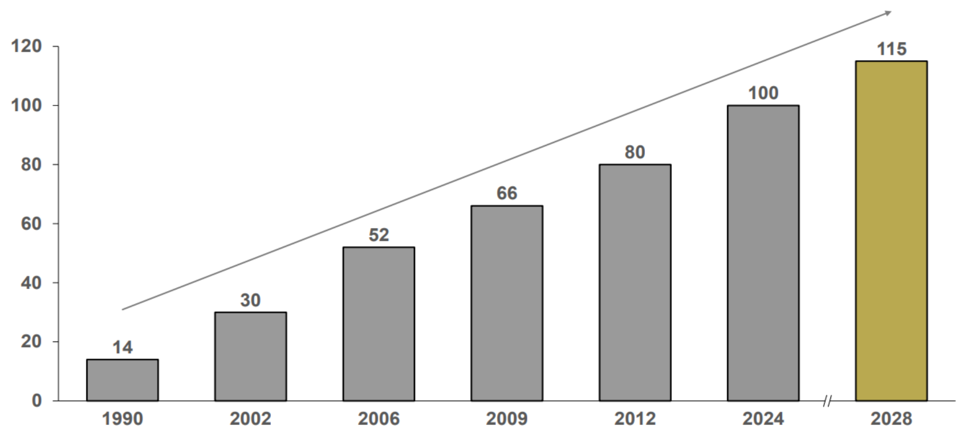
Q3FY26 Earnings Conference Call Highlights:

- **Graphite Electrode Industry:** HEG indicated that EAF steel production remains largely flat at current levels. However, it expects a healthy medium to long term demand trajectory for graphite electrodes, driven by the global shift toward EAF steelmaking. It is estimated that ~110 million tonnes of new EAF capacity will be added by FY30, translating into incremental electrode demand of ~2 lakh tonnes.
- **Graphite Electrode Pricing:** HEG mentioned that graphite electrode prices have remained unchanged over the past few quarters, while needle coke prices have also been steady. It does not expect any major price increase until Q2FY27. Additionally, 50%-60% of FY27E volumes are being contracted at the current prevailing prices.
- **Capacity Expansion and Capex:** HEG reported ~89% capacity utilisation in 9MFY26 (vs 80% in FY24), reflecting market share gains despite flattish EAF steel production. It expects utilisation to reach ~90% in FY26. It is progressing with its planned 15,000 tonne capacity expansion, involving a capex of ₹650 crore. It's scheduled to be completed by the end of 2027.
- **HEG Greentech:** HEG Greentech is undertaking significant capacity development initiatives. The anode material plant is expected to be commissioned in Q1FY28, with peak revenue contribution from FY29 onwards. Battery storage EPC capacity is planned to expand from 1 GWh to 6 GWh by Q1FY27. The IPP vertical (BESS plus solar) will add 200 MWh by Q2FY27, followed by another 1,000 MWh targeted for FY28. Moreover, the management expects the IPP business to contribute substantially to HEG Greentech's revenue from Q1FY28 onwards.
- **US Tariffs**: HEG noted that the recent US trade deal, which reduced tariffs from 50% to 18%, will provide some relief to the company. Moreover, the management intends to absorb the tariff cost to maintain long-term customer relationships in the US.

Ultra-High-power segment contributes 70%-75% of overall company's product portfolio.

Management expects the demerger scheme to receive NCLT approval by Q1FY27.

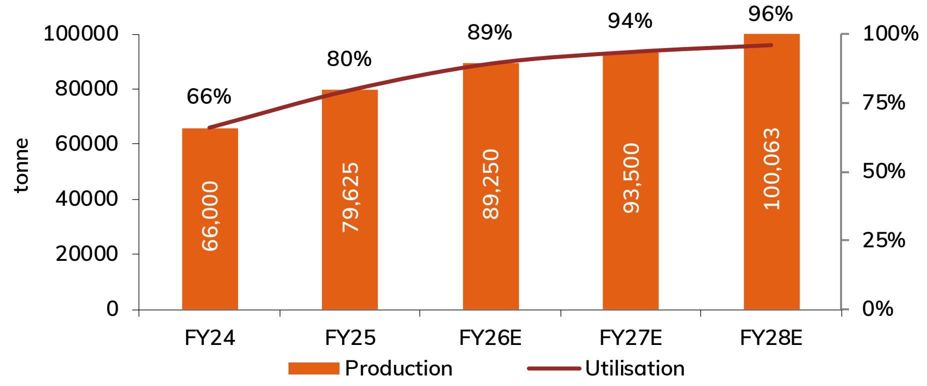
Exhibit 1: Graphite Electrode Capacity Build Up at HEG (in'000 MT)



Source: Company, ICICI Direct Research

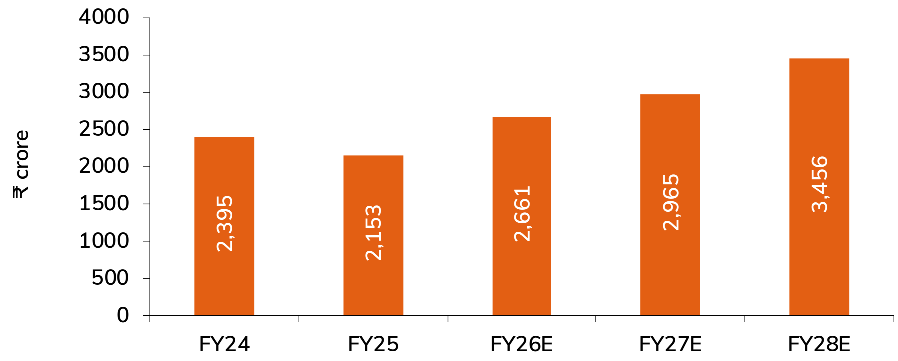
Financial Story in Charts

Exhibit 2: Capacity Utilisation trend at HEG



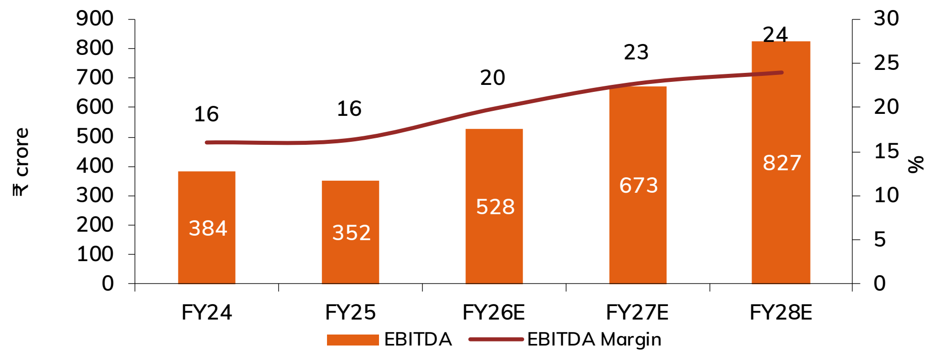
Source: Company, ICICI Direct Research; for FY24 the capacity is weighted average for 80,000 – 9M'24 and 1,00,000 – 3M'24

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	FY28E
FY28E EBITDA (₹ crore)	827
EV/EBITDA Multiple (x)	10
EV (₹ Crore)	8,266
Net Debt (₹ crore)	1,185
2x P/B Bhilwara Energy Equity Invst. (₹ crore)	614
2x P/B Other long term investments	59
2x Capex to new Anode (2x P/B, ₹ crore)	4,500
HEG Implied Equity Value (₹ crore)	12,254
No. of Shares (crore)	19.3
Target Price (₹)	**635**
CMP (₹)	550
Upside	15%

Source: ICICI Direct Research

We have a positive view on HEG, driven by the global transition towards the EAF steelmaking route and capacity expansion led growth prospects ahead. We recommend a BUY rating with a target price of ₹635 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 Capex to anode business, all on FY28E.

Financial Summary

Exhibit 6: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Total Operating Income	2,153	2,661	2,965	3,456
Growth (%)	(10)	24	11	17
Raw Material Expenses	904	1,083	1,170	1,344
Employee Expenses	97	117	129	145
Other Operating Expense	800	932	993	1,140
Total Operating Exp.	1,801	2,133	2,292	2,629
EBITDA	352	528	673	827
Growth (%)	(8)	50	27	23
Depreciation	201	216	228	256
Interest	39	36	59	82
Other Income	127	110	51	56
Share of Associate	-	-	-	-
PBT	238	387	437	545
Exceptional Item	(91)	-	-	-
Total Tax	47	79	109	136
Reported PAT	101	307	327	409
Growth (%)	-56.3	203.2	6.6	24.8
EPS (₹)	5.2	15.9	17.0	21.2

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Profit after Tax	101	307	327	409
Add: Depreciation	201	216	228	256
(Inc)/dec in Current Assets	-9	-330	-129	-344
Inc/(dec) in CL and Provisions	-50	94	64	56
Others	-178	-74	8	26
CF from operating activities	65	213	499	402
(Inc)/dec in Investments	-235	650	220	20
(Inc)/dec in Fixed Assets	-146	-1,100	-1,400	-400
Others	212	100	41	46
CF from investing activities	-169	-350	-1,139	-334
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-35	200	800	100
Dividend & interest outgo	-126	-85	-117	-149
Inc/(dec) in Share Cap	0	0	0	0
Others	0	0	0	0
CF from financing activities	-161	115	683	-49
Net Cash flow	-265	-21	43	19
Opening Cash	383	118	97	140
Closing Cash	118	97	140	159

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet ₹crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Liabilities				
Equity Capital	39	39	39	39
Reserve and Surplus	4,121	4,380	4,649	4,991
Total Shareholders funds	4,160	4,419	4,688	5,029
Total Debt	585	785	1,585	1,685
Deferred Tax Liability	94	94	94	94
Minority Interest / Others	5	5	5	5
Total Liabilities	4,843	5,302	6,372	6,813
Assets				
Gross Block	3,414	3,535	3,435	4,085
Less: Acc Depreciation	1,513	1,728	1,957	2,212
Net Block	1,901	1,807	1,478	1,873
Capital WIP	21	1,000	2,500	2,250
Total Fixed Assets	1,922	2,807	3,978	4,123
Investments	1,231	581	361	341
Inventory	1,255	1,458	1,543	1,799
Debtors	440	547	609	663
Loans and Advances	2	2	2	3
Other Current Assets	207	226	208	242
Cash	118	97	140	159
Total Current Assets	2,021	2,330	2,503	2,865
Current Liabilities	398	474	528	568
Provisions	10	11	13	14
Current Liabilities & Prov	502	596	661	717
Net Current Assets	1,519	1,734	1,842	2,149
Others Assets	171	181	191	201
Application of Funds	4,844	5,302	6,372	6,813

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Per share data (₹)				
EPS	5.2	15.9	17.0	21.2
Cash EPS	15.6	27.1	28.8	34.4
BV	215.5	229.0	242.9	260.6
DPS	4.5	2.5	3.0	3.5
Cash Per Share	69.9	35.1	26.0	25.9
Operating Ratios (%)				
EBITDA Margin	16.3	19.8	22.7	23.9
PAT Margin	4.7	11.5	11.0	11.8
Inventory days	212.7	200.0	190.0	190.0
Debtor days	74.6	75.0	75.0	70.0
Creditor days	67.6	65.0	65.0	60.0
Return Ratios (%)				
RoE	0.9	7.0	7.0	8.1
RoCE	3.1	5.9	7.0	8.4
RoIC	3.5	7.5	12.0	13.0
Valuation Ratios (x)				
P/E	104.8	34.6	32.4	26.0
EV / EBITDA	30.5	21.3	17.9	14.7
EV / Net Sales	5.0	4.2	4.1	3.5
Market Cap / Sales	4.9	4.0	3.6	3.1
Price to Book Value	2.6	2.4	2.3	2.1
Solvency Ratios				
Debt/EBITDA	1.7	1.5	2.4	2.0
Debt / Equity	0.1	0.2	0.3	0.3
Current Ratio	4.3	4.3	4.1	4.4
Quick Ratio	1.5	1.5	1.4	1.5

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according -to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets), Manisha Kesari (PGDM-Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Jeetu Jawrani Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months. a

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

ICICI Securities Limited has not used any Artificial Intelligence tools for preparation of this Research Report