

CMP: ₹ 500

Target: ₹ 600 (20%)

Target Period: 12 months

BUY

May 27, 2025

Industry consolidation to drive improved profitability...

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.

Q4FY25 Results: HEG reported tad muted performance in Q4FY25. On standalone basis, Topline for the quarter stood at ₹ 537 crore (down 2% YoY, however up 12% QoQ). Adjusted EBITDA came in at ₹105 crore with corresponding EBTDA margins at 19.5% (Excluding one-time net loss of ₹153 crores on mark to market company's investments in Graftech). Reported PAT came in negative at ₹62 crore.

Investment Rationale:

- Global EAF shift, peer plant closures – structural positives for HEG:** With decarbonization on cards, Global steel industry is increasingly adopting 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) in coming years, which will drive incremental demand for graphite electrodes by >2 lakh tons vs the current industry size of ~6.3 lakh tons. Additionally, recent plant closures by industry players cumulating shutting down ~1.2 lakh tonne of capacity (~16% of global capacity ex China & Russia) is expected to support graphite electrode prices. HEG, one of the top five global graphite electrode producers, stands to benefit from these industry tailwinds with record 1 lakh tonne capacity at single location (cost efficient). Building in positives, HEG's utilization is expected at 85%/90% for FY26E/FY27E, respectively.
- HEG's Demerger unlocks value and fuels green tech ambitions:** HEG is undergoing a strategic demerger to create two listed entities: HEG Graphite- graphite electrode business and HEG Greentech, which is targeting growth in clean technologies. HEG Greentech will include Bilwara Energy (power) and TACC, which is setting up 20,000-ton graphite anode facility with ~₹1,850 crore investment, commissioning by April'27. This positions HEG to tap into the growing demand for lithium-ion batteries, with projected demand of ~150–160 GWh by 2030, requiring ~1.5 lakh tons of anode material. The facility is expected to deliver robust returns with EBITDA margins of 25%+, and ROCE of ~20%+. HEG Greentech also plans to expand into 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 target price of **₹600** thereby valuing it on SoTP basis, i.e. 10x EV/EBITDA to core graphite electrode business, 2x P/B on equity investment in BEL, 1.5x on other long-term investments and 2x CWIP to graphite anode business, all on FY27E.



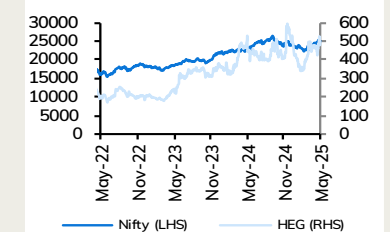
Particulars

Particulars	₹ crore
Market Capitalisation	9,457
Total Debt (FY25P)	585
Cash & Investments	463
EV (₹ crore)	9579
52 Week H/L (₹)	620 / 331
Equity Capital (₹ crore)	39
Face Value (₹)	2.0

Shareholding pattern

	Jun-24	Sep-24	Dec-24	Mar-25
Promoter	55.8	55.8	55.8	55.8
FII	6.1	6.9	7.1	7.2
DII	13.1	12.8	12.1	11.7
Other	25.1	24.5	25.1	25.4

Price Chart



Recent event & key risks

- Posted tad muted performance in Q4FY25 with MTM impact on long term investments in Graftech.
- Key Risk: (i) Delay in global transition to EAF route, impacting demand (ii) Uncertainty in export volumes due to prolonged tariff issues

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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%	2,421.6	2,963.3	17.3%
Reported EBITDA	-59.1	527.2	619.7	384.0	351.5	NA	537.4	805.8	51.4%
Adjusted PAT	-25.3	390.6	455.5	231.6	191.9	29.2%	251.6	426.5	49.1%
Adjusted EPS (₹)	-1.3	20.2	23.6	12.0	5.2		13.0	22.1	
EV/EBITDA (x)	NA	11.1	10.0	24.4	27.2		18.7	13.0	
RoCE (%)	-0.5	11.9	13.0	4.4	3.2		6.0	9.3	
RoE (%)	-0.7	10.3	11.2	5.6	4.6		5.8	9.1	

Source: Company, ICICI Direct Research

Key Takeaways of Recent Quarter

Q4FY25 Results: Reported a Tad Muted performance

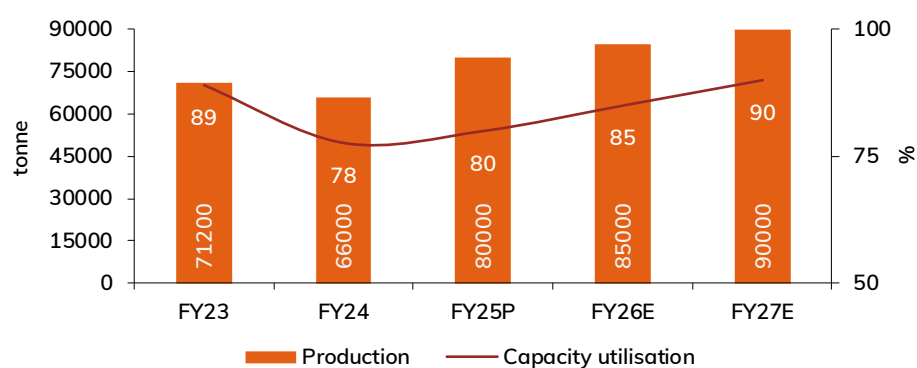
- On standalone basis, Topline for the quarter stood at ₹ 537 crore (down 2% YoY, however up 12% QoQ). Capacity Utilisation of Graphite electrode plant (expanded capacity of 1 lakh ton) stands at ~80% in Q4FY25. Standalone gross margins declined by 140bps to 61.2% in the quarter.
- Adjusted EBITDA came in at ₹105 crore with corresponding EBTDA margins at 19.5%. This is excluding one-time net loss of ₹153 crores owing to market to market of company's long-term investments in Graftech.
- Reported PAT came in negative at ₹62 crore.

Q4FY25 Earnings Conference Call Highlights:

- **Graphite Electrode Industry:** In line with global decarbonization efforts, approximately 100 million tonnes (MT) of new greenfield capacities for Electric Arc Furnaces (EAFs) have been announced globally (excluding China), expected to become operational by 2030. Notably, 35 to 40 million tonnes are expected to be commissioned within the next 18 months. Currently, graphite electrode demand stands at approximately 450,000 to 500,000 tonnes. HEG's capacity utilization is at 80%, compared to the industry average 50–55% capacity utilisation.
- **Global Plant Shutdown:** Over the past 12 months, graphite electrode plant shutdowns have totalled 120,000 tonnes, equivalent to 16% of the global graphite electrode capacity (excluding Russia and China). Within this, Japanese graphite electrode player Resonac has shut down two plants located in China and Malaysia, resulting in a 44,500-tonne capacity reduction. Additionally, Tokai Carbon has scaled down operations in Japan and Germany by 24,000 tonnes. Furthermore, a U.S.-based graphite electrode player recently shut down 24,000 tonnes of capacity earlier this year. These closures have led to a decline in global capacity from 752,000 tonnes over the past two years to the current 633,000 tonnes.
- **Graphite Electrode Pricing:** HEG has seen partial absorption of 15–20% graphite electrode price hike, which was announced by global graphite electrodes producers. Meanwhile, needle coke prices have remained stable over the past three quarters. Looking ahead, the price hikes by global peers and ongoing production shutdowns by international players are expected to support further increases in graphite electrode prices.
- **TACC (Graphite Anode):** HEG's upcoming 20,000-tonne graphite electrode capacity is expected to be commissioned by April'27. The company has invested ₹100 crore in capex to date and plans to commit the majority of the ₹1,850 crore capex in FY26. This will be funded through a combination of debt and internal accruals. Moreover, on global front, China produces ~90% of world's graphite anode. While domestically, graphite anode demand is expected to be 100k to 140k tons and its entirely met through imports. Thus, sensing this opportunity, the company will double this graphite anode capacity in the next 4 to 5 years.
- **Graftech Investments:** As of March,'25, HEG has invested ₹282 crore to acquire a 9.98% equity stake in U.S.-based graphite electrode manufacturer GrafTech, at an average price of \$1.32 per share. However, this US stock has since declined to \$0.87 per share, resulting in a mark-to-market (MTM) loss of ₹160 crore in Q4FY25. The total anticipated loss for FY25 is estimated at ₹80 crore.
- **US tariffs:** Recent imposition of 10% tariff in US, will have an impact going ahead. However, as per the company, the impact is likely to be minimal given it has diversified revenue stream across regions.

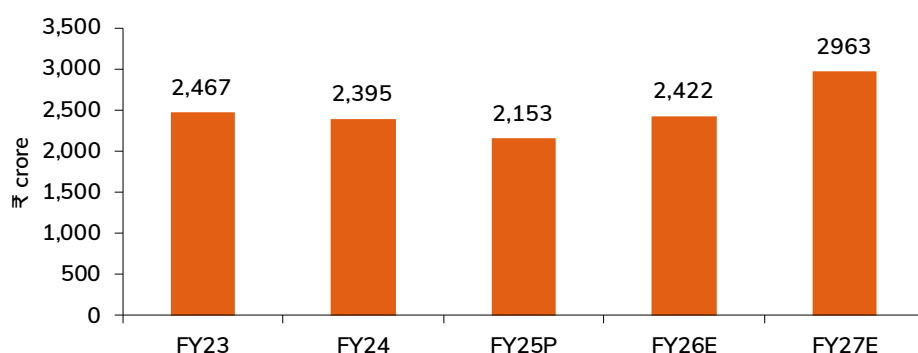
Financial Story in Charts

Exhibit 1: Capacity Utilisation trend at HEG



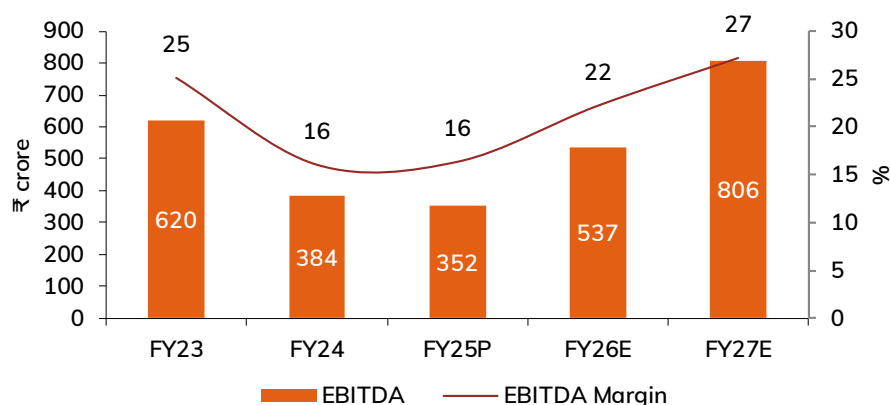
Source: Company, ICICI Direct Research; for FY24 the capacity is weighted average for 80,000 – 9M'24 and 1,00,000 – 3M'24

Exhibit 2: Topline trend



Source: Company, ICICI Direct Research

Exhibit 3: EBITDA and EBITDA margins trend



Source: Company, ICICI Direct Research

Exhibit 4: Valuation table

Valuation table	Amount
FY27E EBITDA (₹ crore)	806
EV/EBITDA Multiple (x)	10
EV (₹ Crore)	8,058
Net Debt (₹ crore)	1,042
2x P/B Bhilwara Energy Equity Invst. (₹ crore)	614
1.5x P/B Other long term investments	899
2x Capex to new Anode Plant (2x P/B, ₹ crore)	3,000
HEG Implied Equity Value (₹ crore)	11,529
No. of Shares (crore)	19
Target Price (₹)	600
CMP (₹)	500
Upside	20%

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 ₹600 thereby valuing it on SoTP basis, i.e. 10x EV/EBITDA on core graphite electrode business, 2x P/B on equity investment in BEL, 1.5x P/B on other long-term investments and 2x CWIP to graphite anode business, all on FY27E.

Financial Summary

Exhibit 5: Profit and loss statement

₹ crore

(Year-end March)	FY24	FY25P	FY26E	FY27E
Total Operating Income	2,395	2,153	2,422	2,963
Growth (%)	-3	-10	12	22
Raw Material Expenses	1151	904	940	1150
Employee Expenses	95	97	109	119
Other expenses	765	800	835	889
Total Operating Expenditure	2011	1801	1884	2158
EBITDA	384	352	537	806
Growth (%)	-38	-8	53	50
Depreciation	175	201	219	234
Interest	36	39	51	73
Other Income	142	127	68	71
PBT	315	238	336	570
Exceptional Item	0	-91	0	0
Total Tax	84	47	85	143
Reported PAT	232	101	252	427
Adjusted PAT	232	192	252	427
Growth (%)	-49	-17	31	70
EPS (₹)	12	5	13	22

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement

₹ crore

(Year-end March)	FY24	FY25P	FY26E	FY27E
Profit/(Loss) after taxation	232	192	252	427
Add: Depreciation & Amortiz	175	201	219	234
Sub: Other Income	-142	-127	-68	-71
Net Increase in Current Asse	246	-13	-109	-313
Net Increase in Current Liabi	-30	-50	34	102
CF from operating activities	480	203	327	378
(Inc)/dec in Investments	-330	-235	90	40
(Inc)/dec in Fixed Assets	-317	-146	-800	-800
Add: Other Income	142	127	68	71
CF from investing activities	-506	-254	-642	-689
Inc / (Dec) in Equity Capital	0	0	0	0
Inc / (Dec) in Loan	-122	-35	400	450
Dividend & Dividend Tax	-164	-35	-48	-97
Others	12	-144	0	0
CF from financing activities	-273	-213	352	354
Net Cash flow	-299	-265	37	43
Opening Cash	682	383	118	155
Closing Cash	383	118	155	198

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet

₹ crore

(Year-end March)	FY24	FY25P	FY26E	FY27E
Liabilities				
Equity Capital	39	39	39	39
Reserve and Surplus	4,106	4,121	4,324	4,654
Total Shareholders funds	4,145	4,159	4,363	4,693
Total Debt	619	585	985	1435
Deferred Tax Liability	96	94	94	94
Non Current Liabilities	10	11	11	11
Total Liabilities	4,871	4,849	5,453	6,233
Assets				
Gross Block	3,128	3,447	3,547	3,647
Less: Acc Depreciation	1,346	1,546	1,765	1,999
Net Block	1,782	1,901	1,782	1,648
Capital WIP	194	21	721	1,421
Total Fixed Assets	1,977	1,922	2,504	3,070
Investments	996	1,231	1,141	1,101
Inventory	1,194	1,255	1,291	1,478
Debtors	508	440	498	609
Loans and Advances	167	172	182	192
Other Current Assets	191	208	213	218
Cash	383	118	155	198
Total Current Assets	2,444	2,192	2,338	2,694
Creditors	425	398	412	504
Other Current Liab. (incl Prov.)	121	98	118	128
Current Liabilities & Prov	546	496	530	632
Net Current Assets	1,898	1,696	1,808	2,062
Others	-	-	-	-
Application of Funds	4,871	4,849	5,453	6,233

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios

(Year-end March)	FY24	FY25P	FY26E	FY27E
Per share data (₹)				
EPS	12	5	13	22
BV	215	216	226	243
DPS	4.5	1.8	2.5	5.0
Cash Per Share	20	6	8	10
Operating Ratios (%)				
EBITDA margins	16.0	16.3	22.2	27.2
PBT margins	13.2	11.1	13.9	19.2
Net Profit margins	9.7	8.9	10.4	14.4
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	5.8	9.1
RoCE	4.4	3.2	6.0	9.3
RoIC	5.0	3.3	7.1	12.7
Valuation Ratios (x)				
P/E	40.8	93.3	37.6	22.2
EV / EBITDA	24.4	27.2	18.7	13.0
EV / Revenues	3.9	4.4	4.1	3.5
Market Cap / Revenues	3.9	4.4	3.9	3.2
Price to Book Value	2.3	2.3	2.2	2.0
Solvency Ratios				
Debt / Equity	0.1	0.1	0.2	0.3
Debt/EBITDA	1.6	1.7	1.8	1.8
Current Ratio	4.5	4.4	4.4	4.3
Quick Ratio	2.3	1.9	2.0	1.9

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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