

Price: 498

Recommendation: Buy

Industry: Electrodes & Refractories

Sector: Industrials

Report Date: 03-Apr-2025

HEG Limited is advancing its market position through strategic initiatives, including a graphite anode project set for 2026 and the establishment of HEG Greentech. The company is expanding its Dewas plant to 20,000 tons to meet rising demand for non-Chinese graphite. Despite challenges like pricing pressure, HEG remains optimistic about the graphite electrode industry's future, leveraging its low-cost production and high capacity utilization. Financially, HEG is debt-free with a strong treasury.

Sales		Profit & Loss		Profitability Matrix	
Current Year	2163 Cr	Operating Profit(Year)	259 Cr	Operating Profit Margin	12.0 %
Previous Year	2463 Cr	Operating Profit(Quarter)	80.4 Cr	EBITDA Margin	24.23 %
Current Quarter	477 Cr	PAT (Year)	231 Cr	Net Profit Margin	9.64 %
Previous Quarter	568 Cr	PAT (Quarter)	98.3 Cr	EPS	10.3
Revenue (QYoY)	562 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	48.5	Sales Growth	-12.2 %	Sales Growth	-16.02 %
PEG Ratio	-1.21	PAT Growth	-49.34 %	Sales Growth QYoY	-15.12 %
EV/EBITDA	20.1	EPS Growth	-14.17 %	PAT Growth	58.29 %
P/B	2.33	Dividend Yield	0.90	PAT Growth QYoY	164.96 %
Capital Allocation		Holdings		Leverage	
RoE	5.61 %	Promoter	55.8 %	Debt/Equity	0.14
RoA	4.23 %	FII	7.07 %	Debt	562 Cr
RoCE	7.30 %	DII	12.1 %	Market Cap	9613 Cr
RoIC	7.31 %	Public	25.0 %	Enterprise value	10036 Cr
		No of Shares	19.3 Cr	Cash Equivalents	139 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

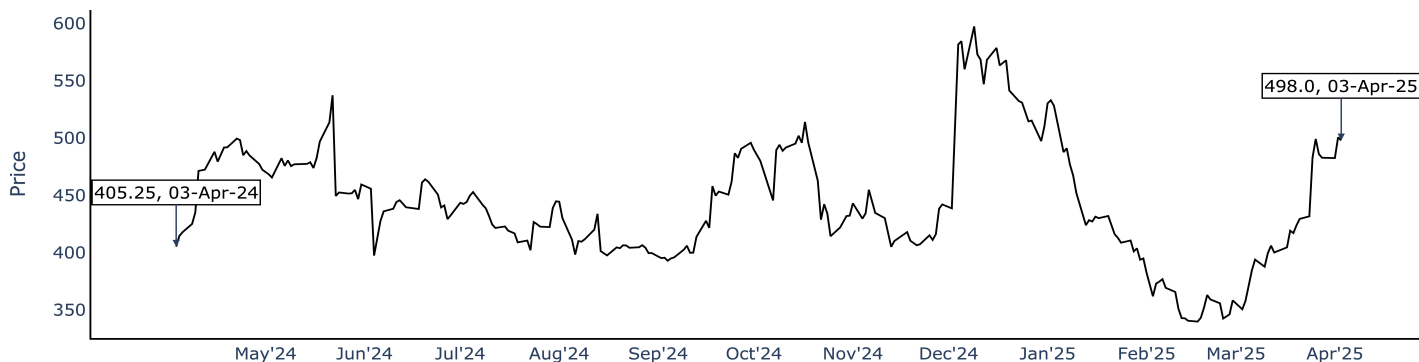
In the recent conference call, HEG Limited outlined several strategic initiatives and business strategies aimed at enhancing its market position and operational efficiency. The company is advancing its graphite anode project, which is expected to be operational by the end of 2026. This project is part of a broader diversification strategy that includes the establishment of HEG Greentech, a new entity focusing on green technologies. The demerger process, which aims to unlock shareholder value, is expected to be completed by the end of the year. The company is also investing in a new plant in Dewas, with a capacity of 20,000 tons, which is a significant increase from the initially planned 10,000 tons. This expansion is part of a strategic move to capitalize on the growing demand for non-Chinese graphite products, which are expected to command a 10% to 15% premium in the market.

HEG's future growth prospects are closely tied to the global shift towards decarbonization and the increasing adoption of electric arc furnaces in steel production. The company is optimistic about the medium to long-term outlook of the graphite electrode industry, despite current challenges such as subdued demand and pressure on electrode pricing. HEG is well-positioned to benefit from the anticipated recovery in demand, driven by new capacities of electric arc furnaces coming online globally. The company has maintained a high capacity utilization rate of 80% at its expanded plant, which is among the highest in the Western world. This operational efficiency, coupled with its status as the lowest-cost producer, provides a competitive edge in navigating industry shifts.

From a financial perspective, HEG reported a revenue of INR 477 crores for the quarter ended December 2024, with an EBITDA of INR 194 crores. The company remains debt-free with a treasury size of nearly INR 1,000 crores. However, the narrowing profit spread due to stable needle coke prices and pressure on electrode pricing remains a concern. The company is actively monitoring global market conditions and is prepared to adjust its strategies accordingly. The management has expressed confidence in its ability to maintain profitability and create long-term value for shareholders through strategic investments and operational efficiencies.

While the company's strategic initiatives and growth prospects are promising, there are areas for improvement. The ongoing geopolitical tensions and potential reciprocal duties from the U.S. could impact export margins. Additionally, the oversupply of Chinese electrodes in the market poses a challenge to pricing stability. To mitigate these risks, HEG could explore further diversification into high-margin products and strengthen its presence in emerging markets. The company's proactive approach in negotiating with state governments for favorable power tariffs and its focus on technological advancements are positive steps towards sustaining growth and enhancing shareholder value.

HEG Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Graphite India	9715.05	22.81	0.95%	-18.66%	-24.20%	-110.31%	-217.65%
HEG	9613.19	48.52	5.61%	-15.95%	-15.17%	58.35%	165.16%
Panasonic Carbon	235.64	11.43	12.34%	-0.30%	1.77%	0.20%	3.74%

Aspect	Commentary
Revenue	The company experienced a decline in revenue, with current year sales at 2163 Cr compared to 2463 Cr the previous year. Quarterly sales also decreased from 568 Cr to 477 Cr, indicating a challenging market environment. The revenue drop suggests potential issues in market demand or competitive pressures affecting sales performance.
Profit & Loss	Operating profit for the year stands at 259 Cr, with a quarterly figure of 80.4 Cr. Despite a yearly PAT of 231 Cr, the quarterly PAT is higher at 98.3 Cr, suggesting improved operational efficiency or cost management in the recent quarter. This indicates a potential recovery or strategic adjustments yielding positive results.
Profitability Matrix	The company maintains an operating profit margin of 12.0% and an EBITDA margin of 24.23%, reflecting efficient cost management. A net profit margin of 9.64% and EPS of 10.3 indicate solid profitability, though there may be room for improvement in operational efficiency to enhance margins further.
Valuation Matrix	With a trailing P/E of 48.5 and a PEG ratio of -1.21, the company appears overvalued relative to its growth prospects. An EV/EBITDA of 20.1 and P/B of 2.33 suggest the market has high expectations, possibly due to strategic initiatives or industry positioning, despite current growth challenges.
Growth (YoY)	Year-over-year growth metrics show a decline, with sales growth at -12.2% and PAT growth at -49.34%. EPS growth is also negative at -14.17%, indicating significant challenges in maintaining growth momentum. The dividend yield of 0.90 suggests a focus on shareholder returns despite growth hurdles.
Growth (QoQ)	Quarter-over-quarter growth shows a mixed picture, with sales growth at -16.02% but a significant PAT growth of 58.29%. The QYoY PAT growth of 164.96% highlights a strong recovery in profitability, possibly due to strategic cost reductions or improved market conditions in the recent quarter.
Capital Allocation	The company demonstrates prudent capital allocation with RoE at 5.61%, RoA at 4.23%, and RoCE at 7.30%. RoIC of 7.31% indicates effective use of invested capital. These metrics suggest a focus on maintaining financial health and optimizing returns on investments, supporting long-term sustainability.
Holdings	Promoter holding is strong at 55.8%, with FII at 7.07% and DII at 12.1%. Public holding is 25.0%, indicating a balanced ownership structure. The number of shares at 19.3 Cr reflects a stable shareholder base, potentially providing resilience against market volatility and supporting strategic initiatives.
Leverage	The company maintains a conservative leverage position with a debt/equity ratio of 0.14 and total debt of 562 Cr. A market cap of 9613 Cr and enterprise value of 10036 Cr, along with cash equivalents of 139 Cr, suggest strong financial stability and capacity to fund growth initiatives without excessive leverage.

Analyst viewpoint: HEG Limited exhibits strong potential for growth in the short to mid-term in the industrial sector. The company's strategic initiatives, including the ambitious graphite anode project and the establishment of HEG Greentech, are setting the stage for future expansion. The plant expansion in Dewas is particularly promising as it aims to capture a significant market share in non-Chinese graphite products. Financially, the quarter has been marked by robust profitability with a PAT growth of 58.29% QoQ, showcasing effective cost management and operational efficiency. Despite a current challenging market environment reflected by a sales decline of 16.02% QoQ, the company's strategic diversification appears effective in combating these pressures. Notably, HEG's low debt levels enhance its capital allocation flexibility, further positioning it well against peers such as Graphite India and Panasonic Carbon, maintaining a strong competitive edge even in fluctuating economic conditions.

In terms of valuation, HEG's trailing P/E ratio of 48.5 and the enduring market confidence in its future prospects underscore investor optimism. The focus on value creation through strategic investments, alongside the expected operational commencement of projects by 2026, signals a positive outlook. While geopolitical tensions and potential duties could impact margins, the company's proactive steps in market diversification and favorable power tariff negotiations provide buffers to potential market volatility. Though the oversupply of Chinese electrodes poses a risk to pricing stability, HEG's solid financial health and strategic growth initiatives warrant a bullish recommendation. As always, it is prudent to be mindful of external macroeconomic risks which could intermittently affect performance.

Please read detailed disclosure on next page.

Explanation of Investment Rating*	
Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (hereinafter referred to as the Regulations).

1. GOALZEN CAPITAL SERVICES PRIVATE LIMITED is a SEBI-Registered Research Analyst having SEBI registration number INH000013448. GOALZEN CAPITAL SERVICES PRIVATE LTD ("GoalFi" or "We"), the research entity, is engaged in providing research services on securities and information on personal financial products. This Research Report (called Report) is prepared and distributed by GOALZEN CAPITAL SERVICES PRIVATE LIMITED with brand name 'GoalFi' (brand name trademarked to research analyst and company director 'Robin Arya') and used by GOALZEN CAPITAL SERVICES PRIVATE LIMITED with mutual consent.

2. GOALZEN CAPITAL SERVICES PRIVATE LIMITED, its partners, employees, directors or agents, do not have any material adverse disciplinary history as on the date of publication of this report.

3. I, Robin Arya, author/s and the name/s in this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or GOALZEN CAPITAL SERVICES PRIVATE LIMITED do not have any financial interest in the subject company.

4. I/we or my/our relative or GOALZEN CAPITAL SERVICES PRIVATE LIMITED do not have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. I/we or my/our relative or GOALZEN CAPITAL SERVICES PRIVATE LIMITED do not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period.

5. I, Robin Arya, do not hold this stock as part of my investment portfolio at the date of recommendation. I/analysts in the Company have not traded in the subject stock thirty days preceding this research report and will not trade within five days of publication of the research report as required by regulations.

6. GOALZEN CAPITAL SERVICES PRIVATE LIMITED has not received any compensation from the subject company in the past twelve months. GOALZEN CAPITAL SERVICES PRIVATE LIMITED has not been engaged in market making activity for the subject company.

7. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, GOALZEN CAPITAL SERVICES PRIVATE LIMITED has not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Analyst Certification:

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclaimers:

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.

This report and information herein is solely for informational purpose and may 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. 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. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment.

The investment discussed or views expressed may not be suitable for all investors. Certain transactions - including those involving futures, options, another derivative product as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document.

This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of GOALZEN CAPITAL SERVICES PRIVATE LIMITED. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. 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 GOALZEN CAPITAL SERVICES PRIVATE LIMITED 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.

Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt GOALZEN CAPITAL SERVICES PRIVATE LIMITED or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold GOALZEN CAPITAL SERVICES PRIVATE LIMITED or any of its affiliates or employees responsible for any such misuse and further agrees to hold GOALZEN CAPITAL SERVICES PRIVATE LIMITED or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is meant for the clients of GOALZEN CAPITAL SERVICES PRIVATE LIMITED only.

GOALZEN CAPITAL SERVICES PRIVATE LIMITED has a contractual arrangement with a vendor - Smallcase Technologies Private Limited (STPL) whereby STPL provides technology solutions and related back-end infrastructure along with support for back-office related operations & processes. STPL does not provide any investment advice or recommendation nor does it make any claim of returns or performance with respect to any advice or recommendation.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing. Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Terms & Conditions:

These Terms and Conditions govern the use of the research subscription services provided by GOALZEN CAPITAL SERVICES PRIVATE LTD ("GoalFi" or "We"). By subscribing to our services, you agree to these terms, if you disagree with any part of the terms, you must not use our services.

Payment and Renewal:

The subscription fee is non-refundable. No such requests over email or any other channel requesting for refund or for pro-rata refund will be acknowledged if smallcase constituents or research provided is accessed by the user. Please do not subscribe if you disagree with any part of the terms. Subscription renewals will be charged the standard rate unless otherwise notified.

Limitation of Liability:

GoalFi provides research based on data and analysis. The subscriber acknowledges that all investment decisions carry inherent risks, and GoalFi shall not be liable for any losses incurred based on our research.

No Investment Advice:

The content provided under the subscription is purely for informational purposes and should not be construed as investment advice. GoalFi, being a SEBI Registered Research Analyst (RA), provides research insights and not investment advisory services.

Termination:

GoalFi reserves the right to terminate the subscription at any time due to non-compliance with these terms or any other reasons deemed appropriate by us and no refund will be made.

No Guarantee: While we strive to provide accurate and reliable research, there is no guarantee on the returns or performance of the recommendations. Investing in securities involves risks, and there's the potential for losing money.

Review and Update: Our research products are reviewed and updated periodically to reflect the latest market conditions and insights. However, market conditions can change rapidly, and there's no guarantee that the conditions on which recommendations and insights are based will remain the same.

Research Analyst Details:

Name: Robin Arya

Email: smallcase@goalfi.in

Contact: +91-9394306085

GOALZEN CAPITAL SERVICES PRIVATE LIMITED

CIN: U66190TS2023PTC176030

Address: Co ikeva Office 10, Level 3, NSL Centrum, Serene Estate Pvt Ltd, Site No. Phase I and II, Opp KPHB Colony Lane Opp. Forum Mall Kukatpally, HYDERABAD, TELANGANA, 500072

Support Telephone: +91 9063309052, Support Email – support@goalfi.in

Customer having any query/feedback/ clarification/ In case of grievances for any of the services rendered by GOALZEN CAPITAL SERVICES PRIVATE LIMITED, write to hello@goalfi.app

Website: goalfiresearch.smallcase.com