HEG Ltd.

ISIN :INE545A01016 | NSE :HEG

Price: 483
Recommendation: Buy
Industry: Electrodes & Refractories
Sector: Industrials
Report Date: 31-Mar-2025

HEG Limited, a leader in graphite electrode production, has stabilized operations post-expansion to 100,000 tons, achieving 80% capacity utilization. As the lowest-cost producer globally, HEG is poised to benefit from the shift towards decarbonization and new electric arc furnaces. The company plans a demerger to create HEG Greentech, focusing on green initiatives. With strong financials and strategic investments, HEG aims for sustainable growth and enhanced shareholder value.

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	47.0	Sales Growth	-12.2 %	Sales Growth	-16.02 %
PEG Ratio	-1.17	PAT Growth	-49.34 %	Sales Growth QYoY	-15.12 %
EV/EBITDA	19.5	EPS Growth	-14.17 %	PAT Growth	58.29 %
P/B	2.26	Dividend Yield	0.93	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	9318 Cr
RoIC	7.31 %	Public	25.0 %	Enterprise value	9741 Cr
		No of Shares	19.3 Cr	Cash Equivalents	139 Cr

source : Company filings

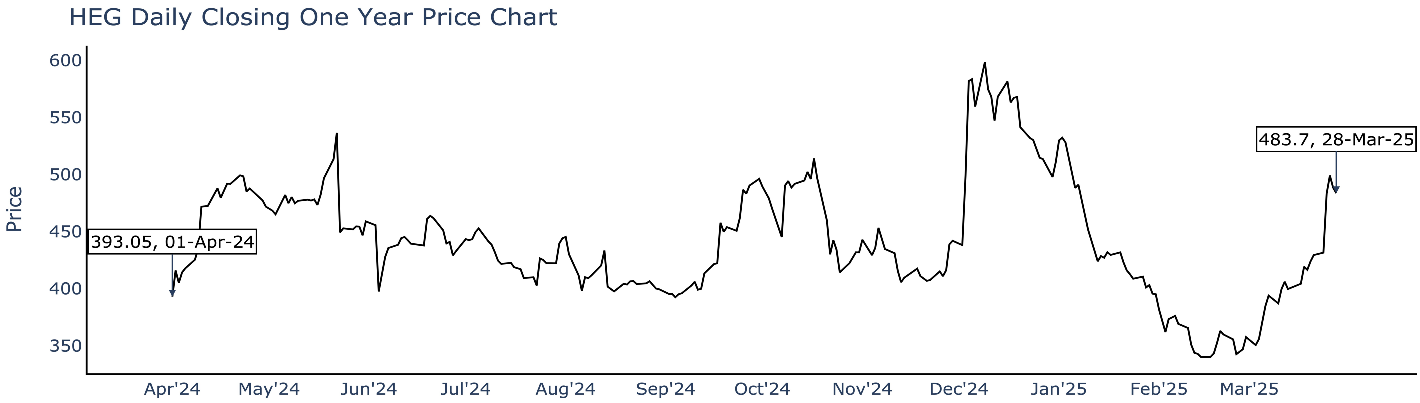
Company's Overview Based on Recent Concall and Performance:

In the recent conference call, HEG Limited discussed several strategic initiatives and business strategies aimed at enhancing their market position and operational efficiency. The company has stabilized its plant operations post-expansion to 100,000 tons, maintaining an 80% capacity utilization, which is the highest among graphite electrode companies in the Western world. Despite the pressure on electrode pricing due to subdued demand, HEG remains the lowest-cost producer globally. The company is optimistic about the medium to long-term outlook, driven by the irreversible shift towards decarbonization and the emergence of new greenfield electric arc furnaces worldwide. HEG is well-positioned to capitalize on increased demand, exporting about two-thirds of its production to over 30 countries.

HEG is actively pursuing a demerger scheme to unlock shareholder value, which was delayed due to a share split but is expected to be completed by the end of the year. The demerger will create a new entity, HEG Greentech, which will focus on green businesses, including anode production and bottle-to-bottle manufacturing. This strategic move aims to align the company's operations with market trends and enhance its competitive edge. The company is also investing in a new 20,000-ton plant in Dewas, with a planned capital expenditure of INR 1,700 to 1,750 crores, expected to be operational by September 2026. This expansion is part of HEG's broader strategy to diversify its product offerings and strengthen its market presence.

Looking ahead, HEG anticipates a recovery in demand in the second half of the year, supported by new electric arc furnace capacities coming online. The company is tracking global projects totaling close to 100 million metric tons of steel, which are expected to drive electrode demand. HEG's strong technological capabilities, operational efficiencies, and market reach position it well to navigate industry shifts and create long-term value for shareholders. However, the company acknowledges potential challenges, such as the impact of reciprocal duties from the U.S. and the need to maintain competitive pricing amidst market fluctuations.

On the financial front, 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. While the current pricing environment poses challenges, HEG's strategic initiatives and focus on cost efficiency provide a solid foundation for future growth. The company's proactive approach to market changes and commitment to innovation are expected to drive sustainable growth and enhance shareholder value.



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Graphite India	9337.98	21.92	0.95%	-18.66%	-24.20%	-110.31%	-217.65%
HEG	9317.92	47.03	5.61%	-15.95%	-15.17%	58.35%	165.16%
Panasonic Carbon	228.50	11.09	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 reflects broader industry trends and potential demand fluctuations.
Profit & Loss	Operating profit for the year stood at 259 Cr, with a quarterly figure of 80.4 Cr. The PAT for the year was 231 Cr, while the quarterly PAT was 98.3 Cr. These figures suggest a stable profit margin despite revenue challenges, highlighting effective cost management and operational efficiency.
Profitability Matrix	The company maintains a healthy operating profit margin of 12.0% and an EBITDA margin of 24.23%. The net profit margin is 9.64%, with an EPS of 10.3. These metrics indicate strong profitability, driven by efficient operations and cost control measures.
Valuation Matrix	The trailing P/E ratio is 47.0, with a PEG ratio of -1.17, suggesting potential overvaluation. The EV/EBITDA is 19.5, and the P/B ratio is 2.26. These valuation metrics reflect market perceptions of growth potential and financial stability.
Growth (YoY)	Year-over-year sales growth declined by 12.2%, with PAT growth dropping by 49.34%. EPS growth also fell by 14.17%. The dividend yield is 0.93, indicating a challenging year with significant impacts on profitability and shareholder returns.
Growth (QoQ)	Quarter-over-quarter sales growth decreased by 16.02%, with a QYoQ decline of 15.12%. However, PAT growth surged by 58.29%, and QYoQ PAT growth was 164.96%, reflecting improved profitability despite sales challenges.
Capital Allocation	The company reports a RoE of 5.61%, RoA of 4.23%, RoCE of 7.30%, and RoIC of 7.31%. These figures suggest prudent capital allocation, ensuring returns on equity and assets are maintained despite market pressures.
Holdings	Promoter holdings are at 55.8%, with FII at 7.07%, DII at 12.1%, and public holdings at 25.0%. The number of shares stands at 19.3 Cr, indicating a stable ownership structure with significant promoter confidence.
Leverage	The debt/equity ratio is 0.14, with total debt at 562 Cr. The market cap is 9318 Cr, and enterprise value is 9741 Cr. Cash equivalents are 139 Cr, reflecting a strong balance sheet with low leverage and ample liquidity.

Analyst viewpoint: HEG Limited's short to mid-term prospects appear robust, primarily driven by its strategic initiatives and operational efficiencies. Despite a recent deceleration in sales growth, the company posted a notable PAT growth of 58.29% quarter-on-quarter and 164.96% year-on-year, reflecting improved profitability amidst market challenges. The company's strategic focus on stabilizing plant operations post-expansion and maintaining a considerable 80% capacity utilization places it in a competitive position, especially as the lowest-cost graphite electrode producer globally. With new electric arc furnaces coming online and an increased global push towards decarbonization, HEG is poised to capitalize on the demand for its products, benefiting further from its wide export reach to over 30 countries.

In terms of financial metrics, HEG's trailing P/E ratio sits at 47.0, which may suggest an overvaluation, yet reflects strong market perception of its growth potential. The company maintains a robust balance sheet with low leverage indicated by a debt/equity ratio of 0.14, alongside a healthy operating margin of 12.0%. Upcoming projects, including the establishment of a new plant and the demerger to create HEG Greentech, showcase its commitment to diversifying its product offerings and enhancing shareholder value through green initiatives. While the current pricing environment poses challenges due to market fluctuations, HEG's adept cost management and strategic focus provide a promising outlook. However, potential reciprocal duties from the U.S. are a mild concern that could impact future profitability.

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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

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