HEG Ltd (HEG)

ICICI Direct

CMP: ₹ 565 | Target: ₹ 660 (17%) | Target Period: 12 months | BUY

July 14, 2026

Company Update

ICICI Securities – Retail Equity Research

Emerging signs of recovery paving the way of growth

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.

Investment Rationale:

- **Global EAF shift and price hike on card to support earnings:** With global decarbonization accelerating, steelmakers are increasingly shifting toward Electric Arc Furnace (EAF) route, which emits ~75% lower carbon than Blast Furnace route. Industry estimates suggest ~100 million tons of EAF capacity additions globally (ex-China) by FY30, driving incremental graphite electrode demand of ~2 lakh tons (vs current industry size of ~6.3 lakh tons). Near-term headwinds persist due to subdued graphite electrode prices, while ongoing West Asia conflict has disrupted shipments and increased freight and fuel costs. Amid this, GrafTech, a leading US-based player, has announced price hikes of $600-1,200/ton on uncommitted volumes. In line with this, HEG, among the top five global electrode manufacturers, has also initiated price hikes on uncommitted volumes, which are expected to gradually reflect from H2FY27, supporting margins. Additionally, HEG is expanding capacity by 15,000 tons, taking total capacity to 1.15 lakh tons by early 2028, sustaining volume growth. Consequently, capacity utilization to remain at ~94%/96% in FY27/28E..
- **Strategic demerger to strengthen and accelerate green-tech growth:** HEG is undertaking demerger to create two listed entities-HEG Graphite (graphite electrode) and HEG Greentech (clean energy ventures). HEG Greentech will include Bhilwara Energy and TACC, which is setting up a 20,000-ton graphite anode plant with a capex of ~₹2,250 crore, expected to be commissioned in Q1FY28. This aims to tap into the fast-growing lithium-ion battery ecosystem, with India's battery demand estimated at ~120-140 GWh by 2030, translating into an anode material requirement of ~1.4 lakh tons. This is expected to generate EBITDA margins of >25% and ROCE >20%. Additionally, it plans to scale up its Battery Energy Storage Solutions (BESS) capacity to 6 GWh (from 1 GWh) while targeting multi-fold increase in green power generation. The overall venture entails cumulative capex of ~₹5,500 crore through FY30, to be funded through a 27:73 equity-debt mix. Supported by a ₹500 crore strategic investment from Singularity AMC. The impending demerger strengthens HEG's long-term positioning in sustainable and high-growth technologies.

Rating and Target Price

- We maintain a positive view on HEG, supported by the long-term structural shift towards EAF-based steelmaking, capacity expansion-led growth in offerings, and value unlocking opportunity through upcoming demerger. With this, we reiterate a **BUY** rating with a revised target price of **₹660**, 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.

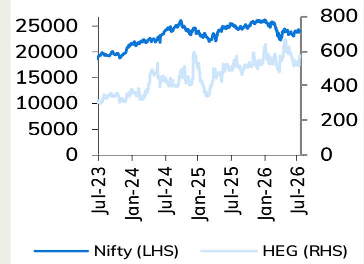
Particulars

Particulars	₹ crore
Market capitalisation	10,903
Total Debt (FY26)	793
Cash & Investment (FY26)	1,145
EV (₹ crore)	10,552
52 week H/L (₹)	690 / 460
Equity capital (₹ crore)	19.3
Face value (₹)	2.0

Shareholding pattern

	Sep-25	Dec-25	Mar-26	June-26
Promoter	55.8	56.1	56.3	56.3
FII	8.0	8.5	10.2	8.5
DII	12.0	12.2	8.6	9.3
Other	24.3	23.2	24.9	26.0

Price Chart



Recent event & key risks

- Reported ~90% utilisation capacity utilisation in FY26 (vs ~80% utilisation in FY25).
- Key Risk: (i) delay in capacity shift towards EAF route, impacting global demand (ii) delay in execution of capex will have impact the medium term growth trajectory.

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Manisha Kesari
manisha.kesari@icicisecurities.com

Key Financial Summary

Key Financials	FY22	FY23	FY24	FY25	FY26	5 year CAGR (FY21-26)	FY27E	FY28E	2 year CAGR (FY26-28E)
Net Sales	2,202	2,467	2,395	2,153	2,569	15.4%	2,979	3,514	17.0%
EBITDA	527	620	384	352	598	NA	641	843	18.7%
EBITDA Margins (%)	23.9	25.1	16.0	16.3	23.3		21.5	24.0	
Net Profit	391	456	232	101	181	NA	300	408	50.3%
EPS (₹/share)	20.2	23.6	12.0	5.2	9.4		15.5	21.1	
P/E	27.9	23.9	47.1	107.6	60.3		36.4	26.7	
RoNW (%)	9.6	10.4	5.2	0.9	0.9		6.2	8.0	
RoCE (%)	9.3	10.0	4.1	2.9	7.0		6.0	7.6	

Source: Company, ICICI Direct Research

Key Takeaways from Recent Quarter

Q4FY26 Results: Reported a Healthy performance

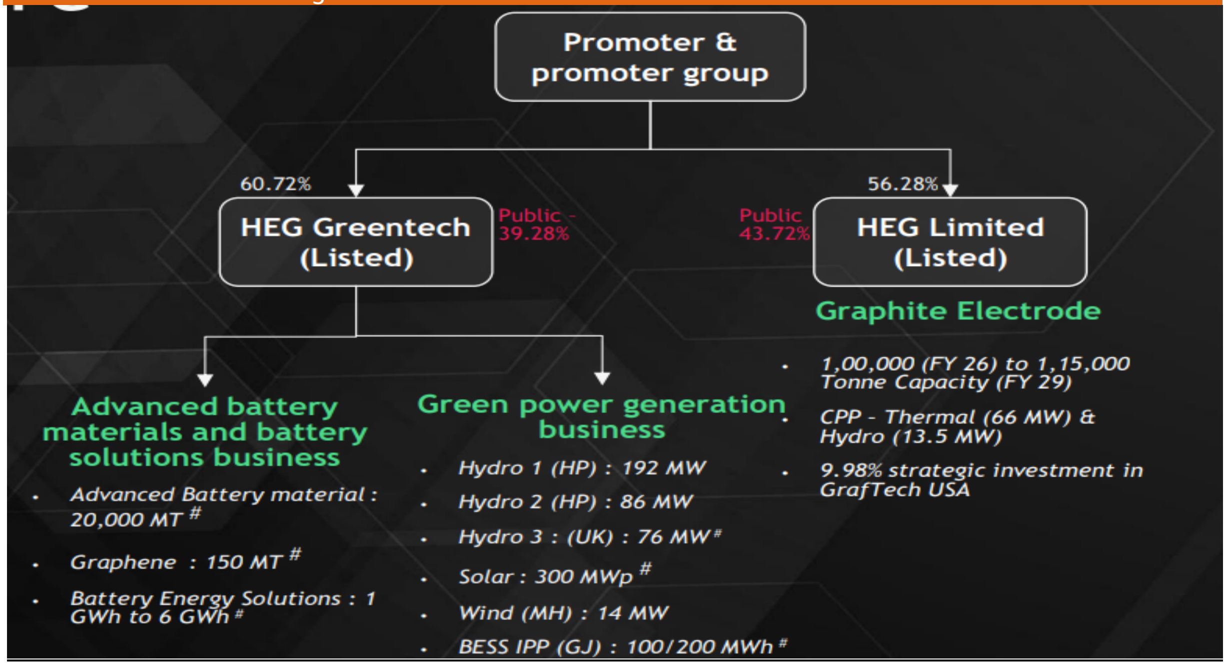
- On standalone basis, Topline for the quarter came in at ₹603 crore (up 12% YoY, down 8% QoQ). Capacity Utilisation of Graphite electrode plant stood at ~90%+ in Q4FY26 (vs ~85% in Q3FY26).
- Standalone gross margins declined by ~280 bps to 57.6% in the quarter. EBITDA for Q4FY26 came in at loss of ~₹142 crore, which includes one-time loss of ₹193 crore from MTM investment in Graftech. Excluding this, Adjusted EBITDA for the quarter came in at ₹51 crore with corresponding EBITDA margins at 8.4% (vs 21.8% in Q3FY26 and 19.5% in Q4FY25).
- The company reported loss at the PAT level to ₹163 crore in Q4FY26.

Q4FY26 Earnings Conference Call Highlights:

- **Graphite Electrode Industry:** HEG highlighted that the global graphite electrode industry continues to witness mixed near-term demand conditions, primarily due to weak steel production trends outside India and China's export-led pressure on global markets. However, the medium to long-term outlook remains structurally strong with over ~100 million tonnes of new EAF capacity is expected to be added globally by 2030 (ex-China), which will translate into incremental graphite electrode demand of ~2 lakh tonnes, providing a strong demand tailwind for the industry.
- **Graphite Electrode Pricing:** HEG mentioned that while electrode prices have remained under pressure due to industry oversupply, the current environment is turning favourable for price increases. Rising input costs, particularly energy and freight due to Middle East conflict, have made price hikes necessary across the industry. The company has already booked orders till Sept'26 at existing prices, but for uncommitted volumes, it has started offering price increases, with the extent varying by region. The full benefit of price hikes is expected to materialize gradually, particularly from H2FY27 onwards, given the lag in contract cycles.
- **Needle Coke cost:** HEG highlighted that needle coke availability remains stable in the near term, with cost visibility secured till Sept'26 due to existing contracts. However, the company expects potential cost pressures going forward, as needle coke prices are linked to crude oil derivatives, which have seen volatility due to geopolitical tensions.
- **Capacity Expansion:** Capacity utilization for Q4FY26 was at 90%+ with FY26 utilization was more than 90%. Going forward, it progressing with its planned expansion of 15k tonnes, taking total capacity to 1.15 lakh tonnes, expected to be completed by early 2028.
- **Middle East Conflict:** HEG noted that ~20% of its revenues come from the Middle East and North Africa region, which has been impacted due to ongoing geopolitical tensions. This has led to order postponements and logistical disruptions thereby significantly increase freight costs, leading to temporary impact on realization due to change in regional sales mix. The sales volume of 1,000 tonnes has been postponed in Q4FY26.
- **HEG Greentech**: HEG Greentech continues to progress in the battery materials segment, particularly in anode materials, thereby engaging with global OEMs such as LG, Panasonic, and CATL, and is at various stages of customer qualification. The anode plant commissioning remains on track, with management expects 40%-60% capacity utilization in the first year of commissioning.
- **Guidance:** Management guided that EBITDA margins are expected to remain in the range of ~17-20% in H1FY27, given existing contracts and cost pressures. However, with expected price hikes and improved demand conditions, margins are likely to improve in H2FY7, with full-year margins expected to exceed 20%, subject to stabilization in input costs and geopolitical conditions.

Key Charts and Tables

Exhibit 1: HEG Restructuring into two entities

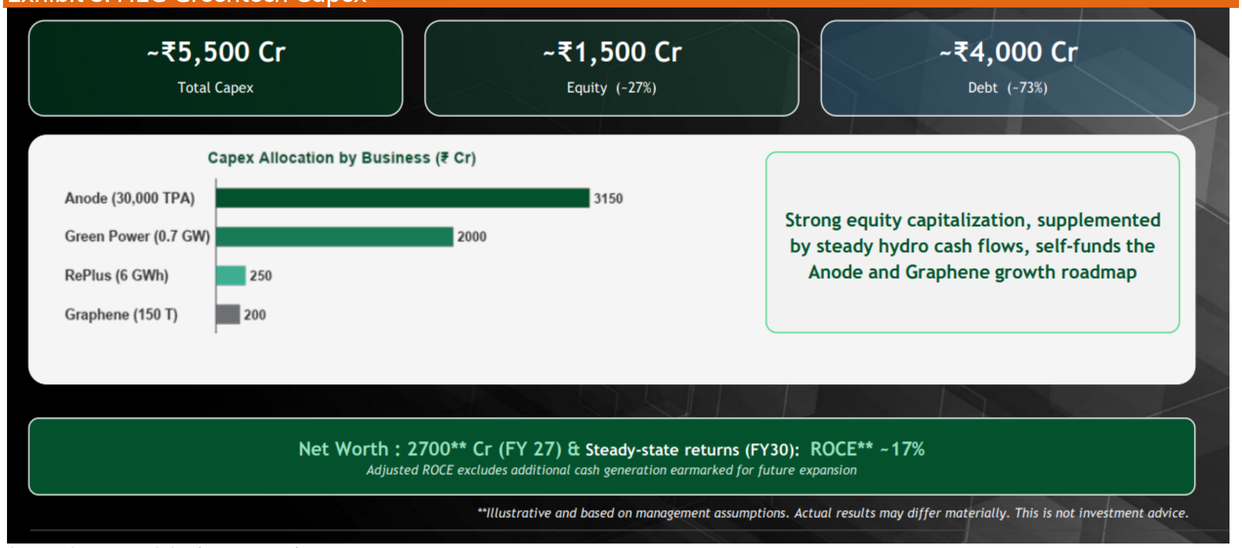


Source: Company, ICICI Direct Research

Exhibit 2: HEG Greentech- Anode Capacity Expansion

Source: Company, ICICI Direct Research

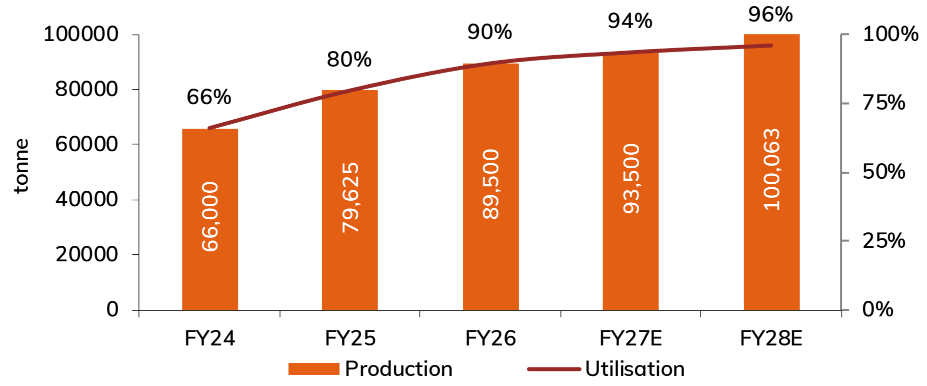
Exhibit 3: HEG Greentech Capex



Source: Company, ICICI Direct Research

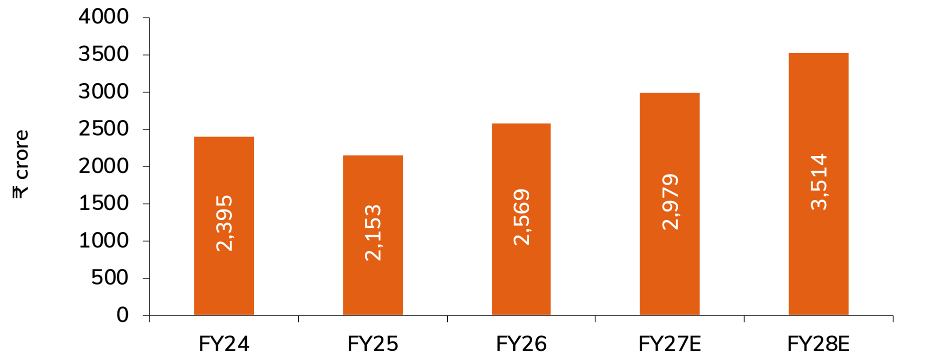
Financial Story in Charts

Exhibit 4: Capacity Utilisation trend at HEG



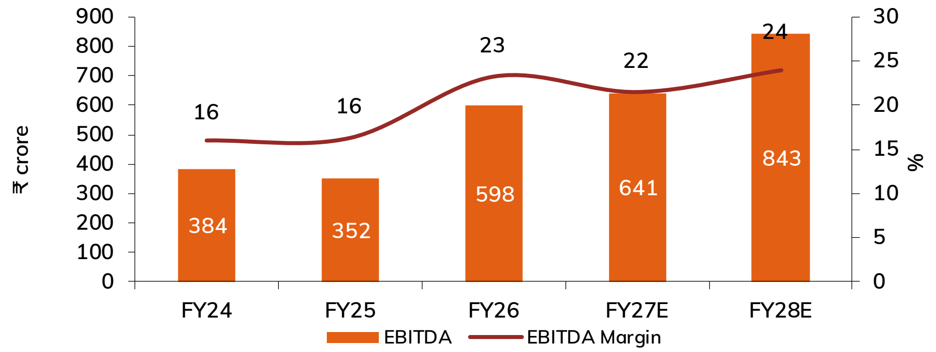
Source: Company, ICICI Direct Research; for FY24 the capacity is weighted average for 80,000 – 9M'24 and 1,00,000 – 3M'24

Exhibit 5: Topline trend



Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margins trend



Source: Company, ICICI Direct Research

Exhibit 7: Valuation table

Valuation table	FY28E
FY28E EBITDA (₹ crore)	843
EV/EBITDA Multiple (x)	10
EV (₹ Crore)	8,428
Net Debt (₹ crore)	1,596
2x P/B Bhilwara Energy Equity Invst. (₹ crore)	614
2x P/B Other long term investments	750
2x Capex to new Anode (2x P/B, ₹ crore)	4,500
HEG Implied Equity Value (₹ crore)	12,696
No. of Shares (crore)	19.3
Target Price (₹)	**660**
CMP (₹)	565
Upside	17%

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 ₹660 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 8: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Total Operating Income	2,153	2,569	2,979	3,514
Growth (%)	(10)	19	16	18
Raw Material Expenses	904	1,063	1,252	1,450
Employee Expenses	97	124	149	176
Other Operating Expense	800	784	937	1,045
Total Operating Exp.	1,801	1,971	2,338	2,671
EBITDA	352	598	641	843
Growth (%)	(8)	70	7	31
Depreciation	201	213	238	264
Interest	39	37	78	116
Other Income	127	92	80	88
Share of Associate	-	-	-	-
PBT	238	439	405	551
Exceptional Item	(91)	(193)	-	-
Total Tax	47	66	105	143
Reported PAT	101	181	300	408
Growth (%)	-56.3	78.4	65.9	36.1
EPS (₹)	5.2	2.0	15.5	21.1

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Profit after Tax	101	181	300	408
Add: Depreciation	201	213	238	264
(Inc)/dec in Current Assets	-9	-164	-313	-428
Inc/(dec) in CL and Provisions	-50	7	78	100
Others	-178	-248	-2	28
CF from operating activities	65	-11	301	372
(Inc)/dec in Investments	-115	34	200	150
(Inc)/dec in Fixed Assets	-266	-523	-1,400	-1,000
Others	212	316	70	78
CF from investing activities	-169	-173	-1,130	-772
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-35	208	1,000	630
Dividend & interest outgo	-126	-103	-155	-212
Inc/(dec) in Share Cap	0	0	0	0
Others	0	28	0	0
CF from financing activities	-161	134	845	418
Net Cash flow	-265	-50	16	17
Opening Cash	383	118	68	83
Closing Cash	118	68	83	101

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet ₹crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Liabilities				
Equity Capital	39	39	39	39
Reserve and Surplus	4,121	4,265	4,487	4,799
Total Shareholders funds	4,160	4,303	4,526	4,837
Total Debt	585	793	1,793	2,423
Deferred Tax Liability	94	83	83	83
Minority Interest / Others	5	6	6	6
Total Liabilities	4,843	5,185	6,408	7,349
Assets				
Gross Block	3,414	3,474	3,474	3,474
Less: Acc Depreciation	1,513	1,726	1,964	2,228
Net Block	1,901	1,748	1,510	1,246
Capital WIP	141	604	2,004	3,004
Total Fixed Assets	2,042	2,352	3,514	4,250
Investments	1,111	1,077	877	727
Inventory	1,255	1,134	1,306	1,540
Debtors	440	499	571	674
Loans and Advances	2	210	243	287
Other Current Assets	207	224	260	307
Cash	118	68	83	101
Total Current Assets	2,021	2,135	2,464	2,909
Current Liabilities	398	388	449	529
Provisions	10	15	17	20
Current Liabilities & Prov	502	509	586	686
Net Current Assets	1,519	1,627	1,877	2,222
Others Assets	171	130	140	150
Application of Funds	4,844	5,185	6,408	7,349

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Per share data (₹)				
EPS	5.2	9.4	15.5	21.1
Cash EPS	15.6	20.4	27.9	34.8
BV	215.5	223.0	234.5	250.7
DPS	4.5	3.4	4.0	5.0
Cash Per Share	63.7	59.3	49.8	42.9
Operating Ratios (%)				
EBITDA Margin	16.3	23.3	21.5	24.0
PAT Margin	4.7	7.0	10.1	11.6
Inventory days	212.7	161.1	160.0	160.0
Debtor days	74.6	71.0	70.0	70.0
Creditor days	67.6	55.1	55.0	55.0
Return Ratios (%)				
RoE	0.9	0.9	6.6	8.4
RoCE	3.1	7.4	6.3	7.9
RoIC	3.6	9.3	9.8	13.8
Valuation Ratios (x)				
P/E	107.6	60.3	36.4	26.7
EV / EBITDA	31.4	18.8	19.4	15.6
EV / Net Sales	5.1	4.4	4.2	3.8
Market Cap / Sales	5.1	4.2	3.7	3.1
Price to Book Value	2.6	2.5	2.4	2.3
Solvency Ratios				
Debt/EBITDA	1.7	1.3	2.8	2.9
Debt / Equity	0.1	0.2	0.4	0.5
Current Ratio	4.3	4.8	4.8	4.8
Quick Ratio	1.5	2.2	2.2	2.2

Source: Company, ICICI Direct Research

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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

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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

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