Shubh Nivesh

HEG Ltd (HEG)

CMP: ₹ 640 | Target ₹ 750 (17%) | Target Period: 6-12 months | **BUY**

July 27, 2026

Industry tailwinds to accelerate earnings 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 adoption and pricing recovery to drive earnings:** The global steel industry is increasingly shifting towards the Electric Arc Furnace (EAF) route, driven by decarbonisation initiatives, as EAF-based steelmaking emits nearly 75% lower carbon than the conventional blast furnace process. Industry estimates indicate ~100 million tonnes of EAF capacity additions (ex-China) by FY30, translating into incremental graphite electrode demand of ~2 lakh tonne, compared to current industry size of ~6.3 lakh tonnes. Industry was witnessing headwinds in the recent past amid subdued pricing environment and geopolitical tensions led supply chain disruptions. Consequently, amid subdued profitability, global players such as GrafTech and Tokai Carbon have announced price hikes on uncommitted volumes. HEG has also indicated price increases, which are expected to reflect in earnings from H2FY27E, supporting margin expansion. Additionally, HEG is expanding capacity by 15,000 tons, taking total capacity to 1.15 lakh tons by early 2028, sustaining volume growth.
- **Strategic demerger will create lucrative long-term value creation:** HEG is undertaking demerger to create two listed entities-HEG Graphite (graphite electrode) and HEG Greentech (clean energy ventures). HEG Greentech will house Bhilwara Energy and TACC, which is establishing a 20,000-tonne graphite anode plant with a capex of ~₹2,250 crore, expected to be commissioned in Q1FY28. This aims to capitalise on India's rapidly expanding lithium-ion battery ecosystem, with battery demand estimated at 120-140 GWh by 2030, translating into an anode material requirement of ~1.4 lakh tonnes. 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, including 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 remain **positive** on HEG, supported by the long-term structural transition towards EAF-based steelmaking, capacity expansion-led growth in offerings, and value unlocking opportunity through upcoming demerger. With this, we assign **BUY** rating on the stock with a target price of **₹750**, based 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.

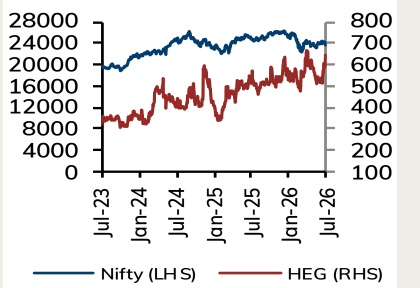
Particulars

Particulars	₹ crore
Market capitalisation	12,351
Total Debt (FY26)	793
Cash & Investment (FY26)	1,145
EV (₹ crore)	11,999
52-week H/L (₹)	685 / 460
Equity capital (₹ crore)	19.3
Face value (₹)	2.0

Shareholding pattern

	Sep-25	Dec-25	Mar-26	June-26
Promoters	55.8	56.1	56.3	56.3
FII	8.0	8.5	10.2	8.5
DIIs	12.0	12.2	8.6	9.3
Others	24.3	23.2	25.0	26.0

Price Chart



Key risks

- Reported healthy Q1FY27 result. Sales/PAT is expected to grow at ~15%/73% CAGR over FY26-28E.
- **Key Risk:** i) delay in steel capacity shift towards EAF route, impacting global demand of electrodes (ii) lower than anticipated rise in graphite electrode prices starting H2FY27E

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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%	2,876	3,402	15.1%
EBITDA	527	620	384	352	598	NA	697	995	29.0%
EBITDA Margins (%)	23.9	25.1	16.0	16.3	23.3		24.2	29.3	
Net Profit	391	456	232	101	181	NA	364	542	73.2%
EPS (₹/share)	20.2	23.6	12.0	5.2	9.4		18.9	28.1	
P/E	31.4	26.9	52.9	121.0	68.3		33.9	22.8	
RoNW (%)	10.3	11.2	5.6	0.9	0.9		7.9	10.8	
RoCE (%)	9.9	10.5	4.3	3.1	7.4		7.4	10.2	

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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