

India

ADD (no change)

Consensus ratings*:	Buy 4	Hold 1	Sell 0
Current price:	Rs1,840		
Target price:	Rs2,462		
Previous target:	Rs2,462		
Up/downside:	33.8%		
InCred Research / Consensus:	5.2%		
Reuters:	HEG IN		
Bloomberg:	HEG IN		
Market cap:	US\$855m		
	Rs71,033m		
Average daily turnover:	US\$7.2m		
	Rs597.6m		
Current shares o/s:	38.6m		
Free float:	44.2%		

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.2	3.5	69.4
Relative (%)	(1.0)	(6.0)	40.5

Major shareholders	% held
Promoter & Promoter Group	55.8
FII	6.2
Insurance Companies	4.8

Research Analyst(s)

Satish KUMAR
T (91) 22 4161 1562
E satish.kumar@incredresearch.com

Vipraw SHRIVASTAVA
T (91) 22 4161 1565
E vipraw.srivastava@incredresearch.com

HEG Limited

Long-term outlook remains bullish

- HEG is likely to register a YoY decline of 8.8% in its 3QFY24F topline (Rs4,876m vs. Rs5,300m), followed by EBITDA decline of 18.7% YoY.
- However, the EBITDA margin is likely to improve by 680bp QoQ, from 15.2% to 22%, leading to a 5.5% EBITDA growth (Rs1,073m vs. Rs1,020m).
- We stay bullish on HEG's long-term prospects, as strong new orders witnessed by US steel mills to lead to increased output. Retain ADD with a TP of Rs2,462.

US steel mills are showing signs of a recovery

HEG has a significant exposure to US steel mills, as 25-30% of its topline comes from the same. Now US steel mills are witnessing a very strong order book, with their total new orders standing at Rs14,790m, which, for context purpose, is even higher than the peak level of the 2008 Global Financial Crisis (Rs14,605m). This is due to the announcement of the Infrastructure Spending Act by US President Joe Biden, which has spurred the consumption of steel in the country and may get ramped up further in the coming quarters.

Graphite anode business presents an interesting opportunity

HEG will set up a 20,000t graphite anode manufacturing capacity, which is likely to be operational by FY26F. Power remains the key input cost for manufacturing graphite anode, as it accounts for 50-60% of the cost. Power cost in inner Mongolia is Rs5.93/unit and the same for HEG is Rs5.5/unit and thus, marginally cheaper. Moreover, the production-linked incentive or PLI from the Government of India for battery storage mandates battery manufacturers to do 60% of their value addition in India if they want to be eligible for the incentive. Currently, 30GWh of battery PLIs have been approved, which means roughly 30,000t of battery anode material is required. HEG is likely to cater to most of it. Furthermore, with global players wanting to de-risk the supply chain away from China, it also presents an export opportunity for HEG.

Bullish on HEG's growth prospects; retain ADD with a TP of Rs2,462

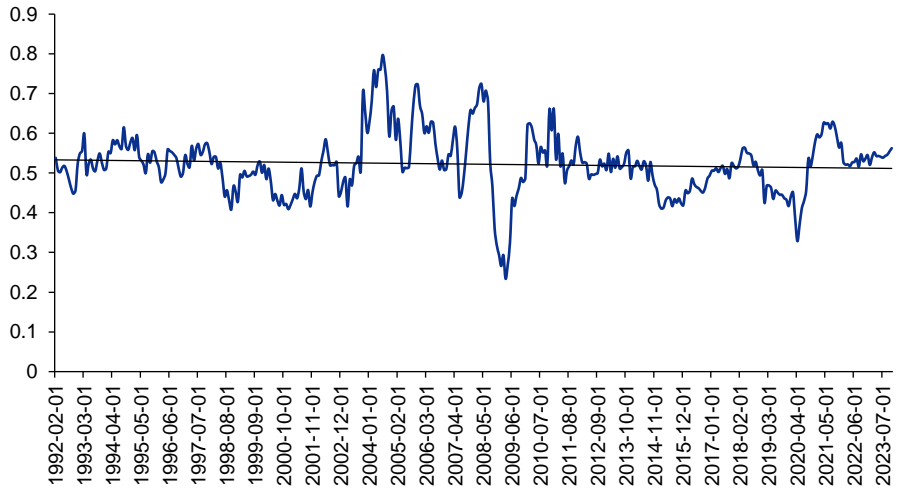
We believe, barring any extraordinary research in the usage of hydrogen for steel manufacturing, electric arc furnace or EAF route is the way to go forward. Graphite electrode manufacturing is a high entry barrier business, with only five players globally having the technological know-how to manufacture the same. As no player has announced capacity expansion in this space, coupled with the new EAF capacity coming up in Europe and the US, and the EU's ETS scheme to be launched in the US, we believe EAF-based steel will increase its market share in the coming years. HEG is also taking away market share from the US-based largest graphite electrode manufacturer, Graftech, and hence its revenue contribution from the US is likely to increase in the coming quarters. We retain our ADD rating on the stock with a target price of Rs 2,462. Key downside risks: Delay in execution of the graphite anode plant project for lithium-ion batteries.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	22,016	24,672	21,036	29,442	34,914
Operating EBITDA (Rsm)	5,272	6,197	7,363	11,188	13,267
Net Profit (Rsm)	3,906	4,555	4,970	7,421	8,852
Core EPS (Rs)	101.2	118.0	128.8	192.3	229.3
Core EPS Growth	215.8%	16.6%	9.1%	49.3%	19.3%
FD Core P/E (x)	18.18	15.60	14.29	9.57	8.03
DPS (Rs)	3.1	39.9	31.1	31.1	31.1
Dividend Yield	0.17%	2.17%	1.69%	1.69%	1.69%
EV/EBITDA (x)	13.59	11.54	9.89	5.96	4.39
P/FCFE (x)	(169.02)	183.47	14.09	1,428.23	95.92
Net Gearing	1.8%	1.3%	3.7%	(7.2%)	(18.1%)
P/BV (x)	1.88	1.66	1.43	1.20	1.02
ROE	10.9%	11.3%	10.7%	13.6%	13.7%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: US new orders-to-inventory ratio, we expect the inventory to decline further in the coming quarters as the new order book for US steel mills remains strong



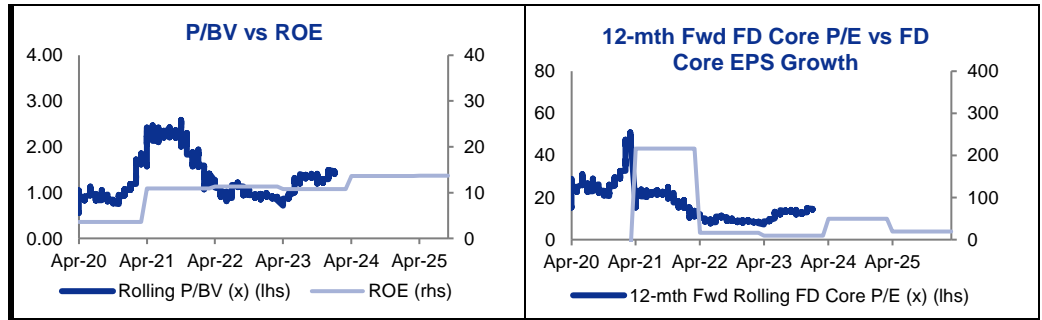
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: 3QFY24F financials snapshot (Rs m)

HEG	3QFY24F	3QFY23	YoY	2QFY24	QoQ
Total sales	4,876	5,300	-8.0%	6,710	-27.3%
EBITDA	1,073	1,320	-18.7%	1,020	5.2%
EBITDA margin (%)	22.0%	24.9%	-291 bp	15.2%	680 bp
PAT	1,023	1,050	-2.6%	960	6.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	22,016	24,672	21,036	29,442	34,914
Gross Profit	13,726	15,521	13,674	20,021	23,742
Operating EBITDA	5,272	6,197	7,363	11,188	13,267
Depreciation And Amortisation	(793)	(1,023)	(1,456)	(2,013)	(2,185)
Operating EBIT	4,479	5,174	5,907	9,175	11,083
Financial Income/(Expense)	(75)	(260)	(75)	(75)	(75)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	795	1,091	795	795	795
Profit Before Tax (pre-EI)	5,200	6,005	6,627	9,895	11,803
Exceptional Items					
Pre-tax Profit	5,200	6,005	6,627	9,895	11,803
Taxation	(1,294)	(1,450)	(1,657)	(2,474)	(2,951)
Exceptional Income - post-tax					
Profit After Tax	3,906	4,555	4,970	7,421	8,852
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,906	4,555	4,970	7,421	8,852
Recurring Net Profit	3,906	4,555	4,970	7,421	8,852
Fully Diluted Recurring Net Profit	3,906	4,555	4,970	7,421	8,852

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	5,272	6,197	7,363	11,188	13,267
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,548)	(3,899)	4,266	(3,734)	(2,931)
(Incr)/Decr in Total Provisions	(3)	(33)	(3)	(3)	(3)
Other Non-Cash (Income)/Expense	(290)	(193)	319	319	319
Other Operating Cashflow					
Net Interest (Paid)/Received	(399)	(768)	(88)	(88)	(88)
Tax Paid	(1,282)	(1,480)	(1,657)	(2,474)	(2,951)
Cashflow From Operations	(2,250)	(177)	10,200	5,209	7,614
Capex	(3,595)	(4,797)	(200)	(200)	(200)
Disposals Of FAs/subsidiaries	9	9	9	9	9
Acq. Of Subsidiaries/investments	2,612	4,009	(442)	(442)	(2,156)
Other Investing Cashflow	(859)	568	(862)	(862)	(862)
Cash Flow From Investing	(1,834)	(211)	(1,496)	(1,496)	(3,210)
Debt Raised/(repaid)	3,663	775	(3,663)	(3,663)	(3,663)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(121)	(1,538)	(1,199)	(1,199)	(1,199)
Preferred Dividends					
Other Financing Cashflow	(106)	(236)	(106)	(106)	(106)
Cash Flow From Financing	3,436	(1,000)	(4,969)	(4,969)	(4,969)
Total Cash Generated	(647)	(1,388)	3,736	(1,255)	(565)
Free Cashflow To Equity	(420)	387	5,041	50	741
Free Cashflow To Firm	(4,009)	(128)	8,780	3,788	4,479

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	6,017	6,904	5,622	11,684	20,139
Total Debtors	5,899	4,897	4,551	6,366	7,548
Inventories	9,778	14,401	9,778	9,778	9,778
Total Other Current Assets	8,376	2,323	7,879	8,376	8,376
Total Current Assets	30,070	28,525	27,830	36,205	45,841
Fixed Assets	7,484	13,482	18,202	25,163	27,308
Total Investments	3,727	7,428	7,431	7,431	7,431
Intangible Assets	1	3	1	1	1
Total Other Non-Current Assets	10,428	7,482	10,428	5,613	5,613
Total Non-current Assets	21,640	28,394	36,063	38,208	40,353
Short-term Debt	6,634	7,409	7,409	7,409	7,409
Current Portion of Long-Term Debt					
Total Creditors	4,479	4,120	4,034	5,162	6,122
Other Current Liabilities	1,706	1,582	1,706	1,706	1,706
Total Current Liabilities	12,819	13,110	13,150	14,278	15,237
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	71	51	45	45	45
Total Non-current Liabilities	71	51	45	45	45
Total Provisions	1,053	949	949	949	949
Total Liabilities	13,943	14,110	14,144	15,272	16,231
Shareholders Equity	37,767	42,809	49,749	59,140	69,962
Minority Interests					
Total Equity	37,767	42,809	49,749	59,140	69,962

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	75.3%	12.1%	(14.7%)	40.0%	18.6%
Operating EBITDA Growth	487.2%	17.5%	18.8%	52.0%	18.6%
Operating EBITDA Margin	23.9%	25.1%	35.0%	38.0%	38.0%
Net Cash Per Share (Rs)	(17.84)	(14.41)	(47.45)	109.59	328.63
BVPS (Rs)	978.68	1,109.04	1,288.83	1,532.13	1,812.50
Gross Interest Cover	59.82	19.90	78.75	122.33	147.77
Effective Tax Rate	24.9%	24.1%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	3.1%	33.8%	24.1%	16.2%	13.5%
Accounts Receivables Days	72.83	79.76	81.85	67.58	72.65
Inventory Days	343.07	482.21	599.33	378.81	319.44
Accounts Payables Days	155.24	171.48	202.11	178.15	184.33
ROIC (%)	9.4%	10.5%	9.8%	14.2%	16.3%
ROCE (%)	10.7%	10.7%	10.8%	14.6%	15.2%
Return On Average Assets	8.5%	8.7%	8.3%	10.8%	11.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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