



## About the Company

- HEG Ltd is a leading manufacturer and exporter of graphite electrodes in India, operating the largest single-site integrated graphite electrodes plant globally. It is part of the LNJ Bhilwara Group, which has a presence in IT-enabled services, power generation, and textiles. The company offers various grades of graphite electrodes, including ultra-high power (UHP), high power (SHP), and regular power (HP) electrodes of different lengths and diameters. Its expertise lies in graphite electrodes, power division, and carbon specialty products.

## Recent Quarter Highlights

- HEG Ltd's revenue from operations in the third quarter of FY24 increased by 28% year-on-year, amounting to ₹592.30 crore.
- In Q3FY24, HEG Ltd reported a net profit of ₹43.67 crore, reflecting a decrease of -58.29% compared to the same period last year.
- The net profit margin for HEG Ltd fell by -59.86% since the same period last year, reaching 7.37% in Q3FY24.
- On a quarterly basis, HEG Ltd experienced a -12.51% decline in revenue and a -54.5% decrease in net profits compared to the previous three months.

## Management Commentary

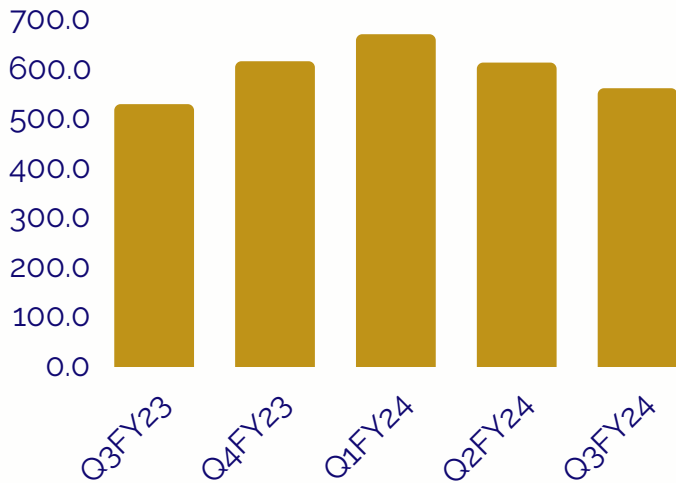
- HEG Ltd's Q3FY24 performance highlights concerns regarding margin recovery. EBITDA declined to ₹87 crore, down 35% year-on-year and 15% quarter-on-quarter, leading to lower EBITDA margins compared to the previous year. Q3FY23 saw EBITDA margins at 25.1%, which dropped to 16.7% in Q2FY24. Consequently, the quarter's PAT decreased to ₹37 crore, reflecting a 64% year-on-year and 40% quarter-on-quarter decline. Management emphasized the need for margin recovery amid ongoing concerns about declining margins. Despite potential short-term price challenges, the company maintains a positive long-term outlook due to global shifts towards EAF steelmaking, limited capacity addition in graphite electrode space, and significant capex in manufacturing raw material for Li-On cells.

### **HEG LTD (BUSINESS MODEL)**

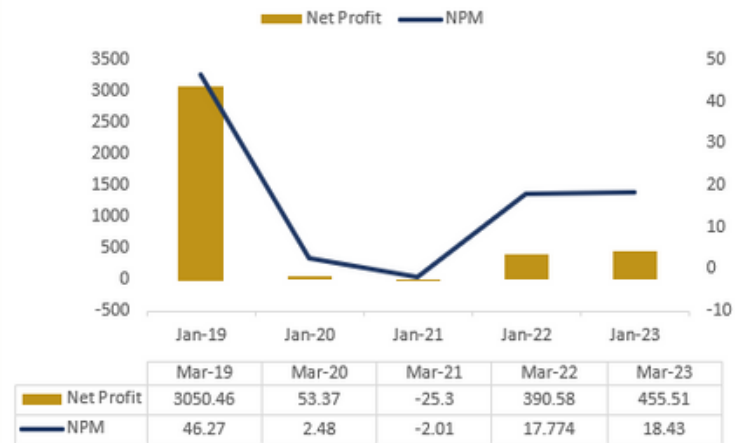
- HEG Ltd's business model revolves around being a prominent graphite electrode manufacturer. The company operates in segments such as Graphite Electrodes, where it specializes in manufacturing sophisticated UHP (Ultra High Power) Electrodes.
- HEG Ltd has a significant global presence, exporting over 70% of its production to more than 30 countries worldwide. The company's commitment to continuous improvement in product quality, adherence to international standards, and meeting evolving challenges has positioned it as a leader in the graphite electrode industry.
- Additionally, HEG Ltd focuses on reducing leverage, paying back creditors, and aiming for self-sustainability. The company's business strategy includes a strong emphasis on growth, innovation, quality, and customer focus, aligning with its vision to be a globally acknowledged top player in the graphite electrodes sector.
- HEG Ltd has facilities for production of graphite electrodes and graphite specialties in the Graphite segment. The company's plant is located at Mandideep near Bhopal, Madhya Pradesh. Additionally, HEG Ltd has about three captive power generation facilities that can together produce around 76.5 megawatts (MW), fulfilling almost the entire requirement of the graphite plant.
- The revenue contribution of the graphite segment to HEG Ltd's overall revenue is approximately 80%



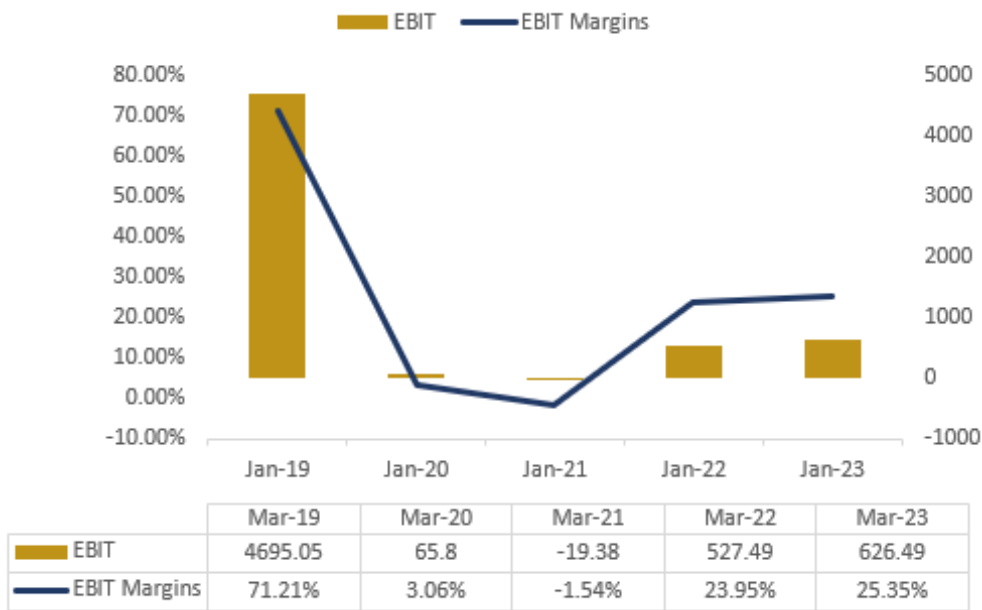
### REVENUE FROM OPERATIONS



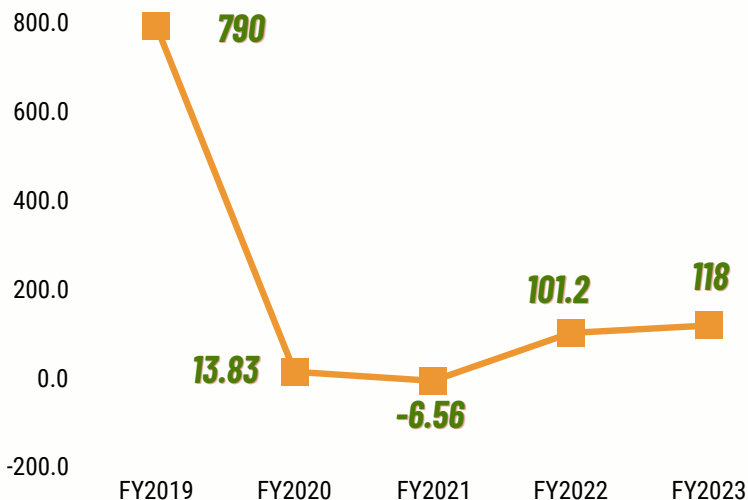
### NET PROFIT & NPM



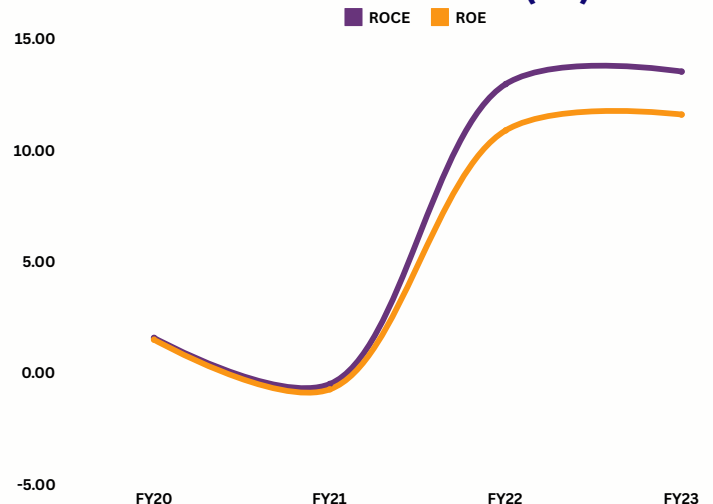
### EBITDA & MARGINS



### EPS



### ROCE VS ROE (%)



### Profit & Loss Statement - HEG LTD

Years	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	LTM	Mar-24	Mar-25
<b>Income Statement</b>								
Sales	₹ 6,591.2	₹ 2,144.8	₹ 1,254.3	₹ 2,200.5	₹ 2,462.6	₹ 2,464.9	₹ 2,711.4	₹ 2,982.5
Sales Growth	139.87%	-67.46%	-41.52%	75.44%	11.91%	0.09%	10.00%	10.00%
COGS	₹ 1,682.5	₹ 1,993.3	₹ 1,137.4	₹ 1,386.3	₹ 1,555.2	₹ 2,001.8	₹ 1,701.5	₹ 1,905.1
COGS % Sales	25.53%	92.94%	90.69%	63.00%	63.16%	81.21%	62.75%	63.88%
<b>Gross Profit</b>	<b>₹ 4,908.63</b>	<b>₹ 151.51</b>	<b>₹ 116.83</b>	<b>₹ 814.24</b>	<b>₹ 907.32</b>	<b>₹ 463.11</b>	<b>₹ 1,009.88</b>	<b>₹ 1,077.40</b>
Gross Margins	74.47%	7.06%	9.31%	37.00%	36.84%	18.79%	37.25%	36.12%
Selling & General Expenses	₹ 247.02	₹ 156.46	₹ 170.07	₹ 284.21	₹ 288.58		₹ 271.40	₹ 271.40
S&G Exp % Sales	3.75%	7.29%	13.56%	12.92%	11.72%	0.00%	10.01%	9.10%
<b>EBITDA</b>	<b>₹ 4,661.61</b>	<b>₹ 4.95</b>	<b>₹ 53.24</b>	<b>₹ 530.03</b>	<b>₹ 618.74</b>	<b>₹ 665.96</b>	<b>₹ 738.48</b>	<b>₹ 806.00</b>
EBITDA Margins	70.73%	-0.23%	-4.24%	24.09%	25.13%	27.02%	27.24%	27.02%
Interest	₹ 17.97	₹ 36.51	₹ 11.37	₹ 7.49	₹ 26.01	₹ 34.44	₹ 34.44	₹ 34.44
Interest % Sales	0.27%	1.70%	0.91%	0.34%	1.06%	1.40%	1.27%	1.15%
Depreciation	₹ 72.39	₹ 72.13	₹ 73.12	₹ 79.29	₹ 102.30	₹ 157.35	₹ 157.35	₹ 157.35
Depreciation%Sales	1.10%	3.36%	5.83%	3.60%	4.15%	6.38%	5.80%	5.28%
<b>Earnings Before Tax</b>	<b>₹ 4,571.25</b>	<b>(₹ 113.6)</b>	<b>(₹ 137.7)</b>	<b>₹ 443.3</b>	<b>₹ 490.4</b>	<b>₹ 474.2</b>	<b>₹ 546.7</b>	<b>₹ 614.2</b>
EBT % Sales	69.35%	-5.30%	-10.98%	20.14%	19.92%	19.24%	20.16%	20.59%
Tax	₹ 1,626.7	(₹ 24.1)	(₹ 5.5)	₹ 129.4	₹ 145.0	₹ 95.7	₹ 109.3	₹ 122.8
Effective Tax Rate	35.58%	21.21%	3.96%	29.20%	29.56%	20.18%	20.00%	20.00%
<b>Net Profit</b>	<b>₹ 2,944.6</b>	<b>(₹ 89.5)</b>	<b>(₹ 132.3)</b>	<b>₹ 313.8</b>	<b>₹ 345.5</b>	<b>₹ 378.5</b>	<b>₹ 437.4</b>	<b>₹ 491.4</b>
Net Margins	44.67%	-4.17%	-10.55%	14.26%	14.03%	15.36%	16.13%	16.48%
No of Equity Shares	3.86	3.86	3.86	3.86	3.86	3.86	3.86	3.86
Earnings per Share	₹ 762.85	₹ 23.19	₹ 34.27	₹ 81.30	₹ 89.50	₹ 98.05	₹ 113.30	₹ 127.30
EPS Growth %	185.45%	-103.04%	47.79%	-337.26%	10.08%	9.56%	15.55%	12.35%
Dividend per Share	₹ 80.0	₹ 25.0	₹ 3.0	₹ 40.0	₹ 42.5	-	-	-
Dividend payout ratio	10.49%	-107.82%	-8.75%	49.20%	47.49%	0.00%	0.00%	0.00%
Retained Earnings	89.51%	0.00%	0.00%	50.80%	52.51%	100.00%	100.00%	100.00%














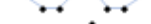







### Cash Flow Statement - HEG LTD

Years	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Profit from operations	4,677.08	29.29	-30.76	520	600.48
Adjustment	-27.42	-30.63	0.47	22.38	52.03
Changes in Assets & Liabilities	-1,534.78	843.81	748.56	-554.83	-390.01
Tax Paid	-1,626.65	-103.76	-2.49	-128.15	-148.01
Operating Cash Flow	1,488.23	738.71	715.79	-140.61	114.48
Investing Cash Flow	-675.78	-275.45	-417.4	-183.36	-31.11
Financing Cash Flow	-788.47	-459.62	-309.82	343.63	-99.95
<b>Net Cash Flow</b>	<b>23.99</b>	<b>3.64</b>	<b>-11.43</b>	<b>19.66</b>	<b>-16.58</b>

### Balance Sheet - HEG LTD

Years	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
Equity Share Capital	₹ 38.6	₹ 38.6	₹ 38.6	₹ 38.6	₹ 38.6
Reserves	₹ 3,755.1	₹ 3,473.1	₹ 3,456.5	₹ 3,875.0	₹ 4,242.3
Borrowings	₹ 666.8	₹ 594.3	₹ 298.1	₹ 664.7	₹ 742.6
Other Liabilities	₹ 683.9	₹ 332.4	₹ 451.0	₹ 729.6	₹ 668.5
<b>Total Liabilities</b>	<b>₹ 5,144.4</b>	<b>₹ 4,438.4</b>	<b>₹ 4,244.2</b>	<b>₹ 5,308.0</b>	<b>₹ 5,692.0</b>
Fixed Assets Net Block	₹ 788.4	₹ 744.7	₹ 694.0	₹ 762.8	₹ 1,362.8
Capital Work in Progress	₹ 18.6	₹ 100.6	₹ 373.3	₹ 696.1	₹ 472.0
Investments	₹ 941.7	₹ 1,244.8	₹ 1,357.7	₹ 1,170.9	₹ 859.3
Other Assets	₹ 343.1	₹ 506.5	₹ 398.6	₹ 509.6	₹ 378.3
<b>Total Non Current Assets</b>	<b>₹ 2,091.8</b>	<b>₹ 2,596.5</b>	<b>₹ 2,823.6</b>	<b>₹ 3,139.3</b>	<b>₹ 3,072.4</b>
Receivables	₹ 1,186.9	₹ 399.4	₹ 289.4	₹ 589.2	₹ 489.1
Inventory	₹ 1,308.4	₹ 1,005.1	₹ 580.6	₹ 977.8	₹ 1,440.1
Cash & Bank	₹ 557.3	₹ 437.3	₹ 550.6	₹ 601.7	₹ 690.3
<b>Total Current Assets</b>	<b>₹ 3,052.6</b>	<b>₹ 1,841.8</b>	<b>₹ 1,420.6</b>	<b>₹ 2,168.7</b>	<b>₹ 2,619.6</b>
<b>Total Assets</b>	<b>₹ 5,144.4</b>	<b>₹ 4,438.4</b>	<b>₹ 4,244.2</b>	<b>₹ 5,308.0</b>	<b>₹ 5,692.0</b>

### Ratio Analysis of - TATA MOTORS LTD

Years	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Trend	Mean	Median
SalesGrowth	139.87%	-67.46%	-41.52%	75.44%	11.91%		32.56%	-1.23%
EBITDA Growth	170.82%	-100.11%	975.56%	-1095.55%	16.74%		210.37%	-24.67%
EBIT Growth	187.08%	-102.48%	21.25%	-421.83%	10.64%		-260.65%	-71.33%
Net Profit Growth	175.46%	-103.04%	47.79%	-337.26%	10.08%		-223.84%	-73.77%
Dividend Growth	0.10%	-68.75%	-88.00%	1233.33%	6.25%		103.66%	0.00%
Gross Margin	74.47%	7.06%	9.31%	37.00%	36.84%		34.11%	30.18%
EBITDA Margin	70.73%	-0.23%	-4.24%	24.09%	25.13%		23.52%	16.44%
EBIT Margin	1.37%	5.07%	6.74%	3.94%	5.21%		8.05%	5.97%
EBT Margin	69.35%	-5.30%	-10.98%	20.14%	19.92%		15.47%	4.72%
Net Profit Margin	44.67%	-4.17%	-10.55%	14.26%	14.03%		9.75%	4.13%
SalesExpenses%Sales	3.75%	7.29%	13.56%	12.92%	11.72%		10.59%	12.08%
Depreciation%Sales	1.10%	3.36%	5.83%	3.60%	4.15%		4.96%	4.60%
OperatingIncome%Sales	1.37%	5.07%	6.74%	3.94%	5.21%		8.05%	5.97%
Return on Capital Employed	102.89%	-1.88%	-3.33%	9.85%	10.28%		21.03%	7.04%
Retained Earnings%	89.51%	0.00%	0.00%	50.80%	52.51%		38.62%	50.24%
Return on Equity%	77.62%	-2.55%	-3.78%	8.02%	8.07%		14.78%	5.18%
Self Sustained Growth Rate	69.48%	0.00%	0.00%	4.07%	4.24%		12.49%	2.62%
Interest Coverage Ratio	255.38x	-2.11x	-11.11x	60.18x	19.86x		35.63x	1.89x
CFO/Sales	8.18%	6.26%	10.20%	11.61%	5.13%		14.92%	11.40%
CFO/Total Assets	28.93%	16.64%	16.87%	-2.65%	1.99%		14.79%	14.70%
CFO/Total Debt	223.19%	124.31%	240.15%	-21.15%	9.75%		93.62%	53.58%

## WHAT SHOULD INVESTORS DO?

We opted for the Earnings Multiple Approach to value the company due to the improving earnings per share (EPS) post the COVID years, with expectations for this trend to persist. Our approach accounts for three scenarios: conservative, neutral, and aggressive. In the conservative scenario, we anticipate a slowdown in EPS growth, while in the neutral scenario, we expect it to remain steady. Conversely, the aggressive scenario suggests an acceleration in EPS growth. Nonetheless, we adopted a slightly conservative stance across all scenarios to prioritize safety.

	Conservative	Neutral	Aggressive
Est. CAGR in EPS% ( In the next 10 Years)	8%	10%	12%
Estimated PE in 10th year	25	30	35
Discount rate	8%	8%	8%
(-) Margin of Safety	8%	8%	8%
Intrinsic Value in Rs.	1850.00	2667.00	3726.00
Fair value in Rs.	1702.00	2453.00	3428.00

After analysis, it's evident that HEG Ltd operates in a specialized sector with significant entry barriers, making it a key player in global graphite electrodes manufacturing. Its expansion into graphite anode production for Lithium-ion cells presents growth opportunities. Given the steel industry's focus on sustainability, HEG Ltd is well-positioned for growth.

Valuation techniques show HEG Ltd is undervalued, with a fair value of ₹2453 determined using the Earnings Multiple Approach. With a consistent performance record and potential in the steel sector, we maintain our upgrade recommendation on HEG LTD, targeting **2420 - 2453** in the future



 **Rohit Kumar Sharma (Equity Research Analyst)**

 [Research@ganeshstock.com](mailto:Research@ganeshstock.com)

 [www.Ganeshstock.com](http://www.Ganeshstock.com)

 122 Vinoba Puri, Lajpat Nagar Part II,  
New Delhi 110 024

 8448899576

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