HEG Limited

Management meet reinforces spread expansion thesis; listing Nov 27

Metals & Mining | Company Update | November 26, 2026 **UNLISTED** | **NOT RATED**

We met with HEG management to discuss the company's outlook and the ongoing value-unlock exercise with demerger into two companies – HEG Advanced Materials and HEG Graphite. HEG Graphite Ltd (renamed back to HEG Ltd) is set to be listed on the exchanges on Friday, November 27. HEG has not only survived the prolonged downturn in the global graphite electrode industry, it has also established a quantifiable structural edge on two fronts: 1) strongest cost position with the highest early cycle margins; and 2) a large, 100ktpa, single-site plant providing significant scale to meet incremental demand and support fixed-cost absorption through better operating leverage. HEG Ltd achieved EBITDA/t of ~US$839 in Q2FY27 which we see potentially moving up to US$1,200-1,300/t range in FY28E as the pricing contracts reset higher for CY27. A favourable stock price performance pre-demerger, in our view, reflects value unlocking and the expectations of early cycle recovery whereas actual spread expansion, which would come with a lag when the offtake contracts roll over, is yet to be priced in. NOT RATED.

Industry fundamentals turning increasingly favourable

The industry backdrop has materially improved over the past 12-18 months. Graftech announced another round of capacity cut of 51kt in Mexico, taking its capacity down to ~127kt. We understand from our channel checks that another plant in Europe could close within the next six months owing to intensified pressure from energy cost, taking incremental marginal capacity out of the system. Two rounds of price hikes by Graftech, in Mar'26 and Sep'26, lead us to believe that the pricing cycle has turned into an early cycle recovery leg from the trough levels of 2025. Global EAF capacity buildout of 62.0mt over 2026-28 is likely to provide a demand support to the tune of 90-100kt of graphite electrode (for context, market size is c.600-650kt ex-China). Near term, we expect a price hike ~US$1,000/t to be taken by the producers in the next round of contract negotiations, which corresponds to 30% hike announced by industry leader, Graftech. Interestingly, the cycle has come to a point where a recovery from trough toward a mid-cycle could become the base case.

Operating leverage and pricing recovery to drive the next earnings leg

HEG has installed capacity of 100kt, operating at 90%+ utilization, and generating EBITDA/t of ~US$840 – this equates to ~Rs 7.4bn of implied EBITDA, which compares with an EBITDA of Rs 3.9bn in FY26. We see two distinct drivers for EBITDA bridge from now until FY29/30E. **1) Volumes growth:** The company is expanding capacity by 15kt to 115kt with a planned commissioning in FY29 and capex outlay of Rs 6.5bn. We get a sense that the project is progressing on time and within budget. **2) Price cycle recovery:** With an imminent price hike of ~US$1,000/t though offset partially by increase in raw materials and energy costs, we believe HEG Ltd could deliver EBITDA/t of US$1,200-1,300/t over FY28-30E. In addition, a cyclical upturn could drive further price hike rounds in coming quarters which we see as optionality for now. These two drivers, collectively, could result in EBITDA potentially reaching Rs11.0-12.5bn by FY28/29E, nearly doubling from the current implied run-rate of ~Rs 7.4bn.

Stock Info	
Bloomberg	NA
Recommendation	NOT RATED
CMP (Rs)	NA
52 week high/low (Rs)	NA
Market cap (Rs bn)	NA
Shares outstanding (mn)	NA
3m avg daily turnover (mn)	NA

Shareholding Pattern (%)	Jun-26
Promoter	56.3
FIIs	8.5
DIIs	9.3
Public	26.0

Price Performance	1M	3M	12M
Absolute (%)	NA	NA	NA
Rel. to Nifty (%)	NA	NA	NA

Financial and Valuation Snapshot

Y/E March (Rs mn)	FY22	FY23	FY24	FY25	FY26
Revenue	22,016	24,672	23,949	21,527	25,685
EBITDA	5,272	6,184	3,824	2,598	3,983
PAT	4,310	5,324	3,117	1,186	3,380
EPS (Rs)	22.3	27.6	16.2	6.0	17.5
EBITDA Margin (%)	23.9	25.1	16.0	12.1	15.5
EBITDA growth (%)	NA	17.3	(38.2)	(32.1)	53.3
EPS growth (%)	NA	23.5	(41.5)	(63.1)	193.8
RoE (%)	11.6	13.0	7.2	2.7	7.3
RoCE (%)	13.8	14.9	7.8	4.1	6.9
P/E (x)	17.7	7.9	19.9	74.2	29.7
P/B (x)	1.9	1.0	1.4	1.9	2.1
EV/EBITDA (x)	14.5	6.9	16.7	34.6	26.6

Source: Company, ABM Research

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Consolidated Financials and Valuations

The financial statements are for HEG Ltd prior the demerger. Proforma financials for to-be-listed HEG Ltd are not available yet.

Income Statement

Y / E Mar (Rs mn)	FY22	FY23	FY24	FY25	FY26
Revenue from operations	**22,016**	**24,672**	**23,949**	**21,527**	**25,685**
Cost of goods sold	11,001	12,311	14,615	12,354	14,329
Employee cost	800	921	953	966	1,237
Other operating expenses	4,943	5,258	4,557	5,609	6,136
EBITDA	**5,272**	**6,184**	**3,824**	**2,598**	**3,983**
Depreciation & Amortisation	793	1,023	1,747	2,006	2,132
EBIT	**4,479**	**5,161**	**2,078**	**593**	**1,851**
Interest expenses	75	260	357	392	372
Other income	796	1,091	1,417	1,276	1,410
Minority/Associates	405	782	817	175	1,155
PBT	**5,605**	**6,774**	**3,954**	**1,651**	**4,044**
Taxes	1,294	1,450	837	465	664
Effective tax rate (%)	23	21	21	28	16
Reported PAT	**4,310**	**5,324**	**3,117**	**1,186**	**3,380**
Extraordinary Items	-	-	-	-	-
Adjusted PAT	**4,310**	**5,324**	**3,117**	**1,186**	**3,380**

Source: Company, ABM Research

Cash Flow Statement

Y / E Mar (Rs mn)	FY22	FY23	FY24	FY25	FY26
PBT	**5,605**	**5,992**	**3,137**	**1,429**	**4,044**
Add: Non-Cash Items	793	1,023	1,747	2,006	2,132
Cash Profit	**6,398**	**7,015**	**4,884**	**3,435**	**6,176**
Add/Less: Other items	(974)	(503)	(735)	547	(808)
Working capital changes	(5,548)	(3,899)	2,328	(737)	(3,013)
Less: Taxes paid	(1,282)	(1,480)	(354)	(447)	(223)
Operating cash flow	**(1,406)**	**1,133**	**6,122**	**2,797**	**2,132**
Less: Capex	(3,595)	(4,797)	(3,715)	(1,822)	(2,527)
Free cash flow	**(5,001)**	**(3,664)**	**2,407**	**975**	**(395)**
Change in Investments	2,612	4,009	(2,569)	(2,112)	738
Investing cash flow	**(1,834)**	**(211)**	**(1,843)**	**(2,068)**	**(3,202)**
Net borrowings	3,658	770	(1,220)	(382)	1,729
Financing cash flow	**3,436**	**(1,000)**	**(3,241)**	**(1,592)**	**969**
Net change in cash	**197**	**(78)**	**1,038**	**(863)**	**(102)**
Add: Opening cash	214	410	333	1,371	508
Other Adjustments	-	-	-	-	-
Closing cash	**410**	**333**	**1,371**	**508**	**406**

Source: Company, ABM Research

Balance Sheet

Y / E Mar (Rs mn)	FY22	FY23	FY24	FY25	FY26
Equity Share Capital	386	386	386	386	386
Reserves & Surplus	38,750	42,423	43,874	44,152	47,193
Shareholders Fund	39,136	42,809	44,260	44,538	47,579
Minority Interest	-	-	-	-	-
Total debt	6,634	7,409	6,194	5,849	7,933
Deferred Tax (net)	963	868	960	949	829
Non-current liabilities	109	81	118	140	149
Total Equity & Liabilities	**53,079**	**56,920**	**57,014**	**56,482**	**61,658**
Gross Block	18,275	25,191	31,022	33,934	34,579
Less: Acc Depreciation	10,791	11,710	13,330	15,012	17,144
Net Block	7,484	13,482	17,691	18,922	17,434
Capital WIP	6,961	4,720	2,123	709	2,236
Net Fixed Assets	22,472	26,202	27,903	27,737	29,393
Investments	538	2,193	2,812	4,179	3,331
Inventories	9,778	14,401	11,942	12,546	11,337
Trade receivables	5,892	4,891	5,083	4,447	4,995
Cash & Bank Balance	6,017	6,903	4,102	1,470	2,501
Trade payables	4,479	4,120	4,253	3,993	4,008
Net current asset/(liabilities)	17,200	15,364	14,623	13,711	15,833
Total Assets	**53,080**	**56,920**	**57,014**	**56,482**	**61,658**
Net Debt	617	506	2,092	4,378	5,432
NWC days	186	224	195	220	175
D/E (x)	1.3	1.2	1.6	2.3	2.0

Source: Company, ABM Research

Ratio Analysis

Y / E Mar (Rs mn)	FY22	FY23	FY24	FY25	FY26
Income statement ratio (%)					
Revenue growth	75.3	12.1	(2.9)	(10.1)	19.3
EBITDA growth	NA	17.3	(38.2)	(32.1)	53.3
PAT growth	NA	23.5	(41.5)	(61.9)	184.9
EBITDA margin	23.9	25.1	16.0	12.1	15.5
PAT margin	19.6	21.6	13.0	5.5	13.2
Return & liquidity ratio					
Net Debt/Equity (x)	0.0	0.0	0.0	0.1	0.1
RoE (%)	11.6	13.0	7.2	2.7	7.3
RoCE (%)	13.8	14.9	7.8	4.1	6.9
Debtor days	98	72	77	75	71
Inventory days	162	213	182	213	195
Payable days	149	122	106	118	102
Per share data & Valuation ratio					
EPS (Rs/share)	22.3	27.6	16.2	6.0	17.5
DPS (Rs/share)	8.0	8.5	4.5	1.8	3.4
P/E (x)	17.7	7.9	19.9	74.2	29.7
EV/EBITDA (x)	14.5	6.9	16.7	34.6	26.6
OCF/EBITDA (%)	NA	NA	62.5	92.9	186.8
EV/Sales (x)	3.5	1.7	2.7	4.2	4.1
BVPS (Rs/share)	202.8	221.8	229.4	230.8	246.6
P/B (x)	1.9	1.0	1.4	1.9	2.1
Dividend yield (%)	2.0	3.9	1.4	0.4	0.7

Source: Company, ABM Research

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