

HEG Ltd (HEG)

₹ 4383

Buyback, capacity expansion augur well...

Buyback details....

The board of HEG has approved a proposal to buy back up to 13,63,636 equity shares comprising 3.41% of the total paid-up equity share capital for an aggregate amount not exceeding ₹ 750 crore. The buyback price has been fixed at ₹ 5500/share. The buyback would be done through the tender offer route and is subject to approval of the shareholders by means of a special resolution through a postal ballot. The public announcement setting out the process, timelines and other requisite details will be released in due course by the company and will be in accordance with buyback regulations.

Capacity expansion driven by healthy demand outlook...

In the meeting, the board also approved an expansion plan proposing capacity addition of 20,000 tonnes requiring investment of ~₹ 1200 crore. The time frame for expansion is around 30 months. The mode of financing for the same would be through internal accruals and debt, if required. Post expansion, the company's installed capacity would increase to 1,00,000 tonne from 80,000 tonne currently. The decision on capacity expansion is based on the structural change in the industry, which would be boosting demand for graphite electrodes.

Continue to remain positive on graphite electrode space; maintain BUY...

Over a medium to longer term horizon, we continue to remain positive on HEG on the back of increasing share in the electric arc furnace (EAF) route of steelmaking. The fortunes of the graphite electrode sector are closely linked with growth in the EAF route of steelmaking. Globally, the percentage of crude steel produced through the EAF route has increased from 26% in CY16 to 28% in CY17. In China, steel produced through the EAF route has increased sharply from 6% in CY16 to 9% in CY17. Going forward, we expect the share of the EAF route in overall steelmaking to increase further thereby supporting global graphite electrode demand. We continue to value the company at 10x FY20E EPS of ₹ 575 thereby arriving at a target price of ₹ 5750. We maintain our **BUY** rating on the stock. In addition to healthy demand prospects, the capacity expansion announced by HEG will provide healthy revenue visibility over a medium term. Hence, this reiterates our positive view on the stock.

Rating matrix	
Rating	: Buy
Target	: ₹ 5750
Target Period	: 12 months
Potential Upside	: 31%

What's Changed?	
Target	: Unchanged
EPS FY19E	: Unchanged
EPS FY20E	: Unchanged
Rating	: Unchanged

Key Financials				
	FY17	FY18	FY19E	FY20E
Net Sales	860.0	2,750.0	6,805.0	6,477.3
EBITDA	80.6	1,721.6	4,562.7	3,357.7
Adjusted PAT	(50.1)	1,081.3	2,997.2	2,297.5
Adjusted EPS (₹)	(12.5)	270.6	750.1	575.0

Valuation summary				
	FY17	FY18	FY19E	FY20E
PE (x)	NA	16.2	5.8	7.6
Target PE (x)	NA	21.2	7.7	10.0
EV/EBITDA (x)	225.6	10.3	3.7	4.8
P/BV (x)	20.1	9.7	4.7	3.3
RoE (%)	(5.7)	59.8	79.8	43.8
RoCE (%)	0.9	78.9	121.4	65.7

Stock data	
Particulars	Amount
Market Capitalisation	₹ 17514 crore
Debt (FY18)	₹ 297 crore
Cash (FY18)	₹ 8 crore
EV	₹ 17803 crore
52 Week H / L (₹)	4950 / 1570
Equity Capital	40.0
Face Value	₹ 10

Price performance (%)				
Return %	1M	3M	6M	12M
HEG	24.9	(3.4)	45.7	138.5
Graphite India	14.6	(5.5)	37.5	78.7

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Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Total Operating Income	860.0	2,750.0	6,805.0	6,477.3	
Growth (%)	3.9	219.8	147.5	(4.8)	
Raw Material Expenses	443.9	478.0	1,252.2	2,080.3	
Employee Expenses	58.9	112.6	243.5	259.1	
Other expenses	276.6	437.9	746.6	780.3	
Total Operating Expenditure	779.4	1,028.5	2,242.3	3,119.6	
EBITDA	80.6	1,721.6	4,562.7	3,357.7	
Growth (%)	(35.2)	2,034.9	165.0	(26.4)	
Depreciation	73.9	72.6	74.7	76.7	
Interest	54.7	56.7	17.9	18.3	
Other Income	7.1	12.4	69.1	166.6	
PBT	(40.9)	1,604.7	4,539.2	3,429.1	
Exceptional Item	-	-	-	-	
Total Tax	9.2	523.4	1,541.9	1,131.6	
Reported PAT	(50.1)	1,081.3	2,997.2	2,297.5	
Adjusted PAT	(50.1)	1,081.3	2,997.2	2,297.5	
Growth (%)	230.7	LP	177.2	(23.3)	
EPS (₹)	(12.5)	270.6	750.1	575.0	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Liabilities					
Equity Capital	40.0	40.0	40.0	40.0	
Reserve and Surplus	831.8	1,768.7	3,713.9	5,204.9	
Total Shareholders funds	871.8	1,808.6	3,753.8	5,244.9	
Total Debt	684.0	297.5	0.0	0.0	
Deferred Tax Liability	60.9	119.2	116.7	104.2	
Non Current Liabilities	4.7	5.9	6.4	4.4	
Total Liabilities	1,621.3	2,231.2	3,877.0	5,353.6	
Assets					
Gross Block	1,672.5	1,693.4	1,768.4	1,843.4	
Less: Acc Depreciation	787.5	860.0	934.7	1,011.5	
Net Block	885.0	833.4	833.7	831.9	
Capital WIP	1.2	1.6	76.7	696.7	
Total Fixed Assets	886.2	835.0	910.3	1,528.6	
Investments	149.8	149.3	149.3	399.3	
Inventory	257.8	511.5	829.3	1,196.6	
Debtors	360.8	972.7	1,864.4	1,952.1	
Loans and Advances	31.9	36.4	29.9	38.4	
Other Current Assets	76.9	123.2	116.2	120.2	
Cash	8.3	7.6	577.3	1,020.6	
Total Current Assets	735.7	1,651.3	3,417.2	4,327.8	
Creditors	86.5	246.4	411.7	683.9	
Other Current Liabilities (incl Prov)	63.9	158.0	188.1	218.2	
Current Liabilities & Prov	150.4	404.4	599.8	902.1	
Net Current Assets	585.3	1,246.9	2,817.4	3,425.7	
Others	-	-	-	-	
Application of Funds	1,621.3	2,231.2	3,877.0	5,353.6	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit/(Loss) after taxation	(50.1)	1,081.3	2,997.2	2,297.5	
Add: Depreciation & Amortization	73.9	72.6	74.7	76.7	
Net Increase in Current Assets	38.0	(916.3)	(1,196.1)	(467.4)	
Net Increase in Current Liabilities	(75.8)	254.0	195.3	302.3	
CF from operating activities	(14.0)	491.6	2,071.2	2,209.2	
(Inc)/dec in Investments	(0.3)	0.6	-	(250.0)	
(Inc)/dec in Fixed Assets	2.0	(21.3)	(150.1)	(695.1)	
Others	-	-	-	-	
CF from investing activities	1.7	(20.7)	(150.1)	(945.1)	
Inc / (Dec) in Equity Capital	-	-	-	-	
Inc / (Dec) in Loan	53.7	(386.6)	(297.4)	-	
Dividend & Dividend Tax	-	(374.0)	(1,052.0)	(806.4)	
Others	(38.2)	289.1	(2.0)	(14.5)	
CF from financing activities	15.4	(471.5)	(1,351.4)	(820.9)	
Net Cash flow	3.2	(0.7)	569.7	443.2	
Opening Cash	5.1	8.3	7.6	577.3	
Closing Cash	8.3	7.6	577.3	1,020.6	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18	FY19E	FY20E	
Per share data (₹)					
EPS	-13	271	750	575	
BV	218	453	939	1,313	
DPS	0	80	225	172	
Cash Per Share	2	2	144	255	
Operating Ratios (%)					
EBITDA margins	9.4	62.6	67.0	51.8	
PBT margins	-4.8	58.4	66.7	52.9	
Net Profit margins	-5.8	39.3	44.0	35.5	
Inventory days	121	182	135	140	
Debtor days	153	129	100	110	
Creditor days	71	188	120	120	
Return Ratios (%)					
RoE	-5.7	59.8	79.8	43.8	
RoCE	0.9	78.9	121.4	65.7	
RoIC	0.4	78.6	141.3	77.7	
Valuation Ratios (x)					
P/E	NA	16.2	5.8	7.6	
EV / EBITDA	225.6	10.3	3.7	4.8	
EV / Revenues	21.2	6.5	2.5	2.5	
Market Cap / Revenues	20.4	6.4	2.6	2.7	
Price to Book Value	20.1	9.7	4.7	3.3	
Solvency Ratios					
Debt / Equity	0.8	0.2	0.0	0.0	
Debt/EBITDA	8.5	0.2	0.0	0.0	
Current Ratio	4.9	4.1	5.7	4.8	
Quick Ratio	3.2	2.8	4.3	3.5	

Source: Company, ICICI Direct Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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