

## RESULT UPDATE

### MID CAP

#### Share Data

Reuters code	HEGL.BO
Bloomberg code	HEG IN
Market cap. (US\$ mn)	357
6M avg. daily turnover (US\$ mn)	2.1
Issued shares (mn)	42.6
Target price (Rs)	403

Performance (%)	1M	3M	12M
Absolute	9	9	208
Relative	9	1	100

#### Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	44.5	50.9
+/- (%)	11.7	14.3
PER (x)	8.3	7.3
Dividend/Yield (%)	3.6	4.1
EV/Sales (x)	1.7	1.5
EV/EBITDA (x)	6.0	5.2

#### Major shareholders (%)

Promoters	53
FII's	3
MF's	4
BFSI	10
Public & Others	30

#### Financial highlights

(Rs. mn)	4QFY09	4QFY10	YoY (%)	FY09	FY10	YoY (%)	FY11E	YoY (%)	FY12E	YoY (%)
Net Sales	2,537	3,358	32.4	10,290	11,314	10.0	13,826	22.2	15,543	12.4
EBITDA	925	723	(21.9)	2,578	3,426	32.9	3,972	15.9	4,442	11.8
EBITDA Margin (%)	36.5	21.5	-	25.1	30.3	-	28.7	-	28.6	-
Depreciation	129	138	7.5	466	524	12.5	551	5.2	600	8.8
Other Income	72	69	(5.4)	169	102	(39.9)	130	27.7	125	(3.8)
Interest	201	106	(47.3)	667	593	(11.2)	688	16.0	695	1.1
PBT	668	547	(18.1)	1,614	2,411	49.4	2,863	18.7	3,272	14.3
Non-recurring items	287	17	(94.0)	0	12	-	0	-	0	-
Tax	140	137	(1.9)	544	713	31.0	965	35.4	1,103	14.3
Reported PAT	241	393	62.7	1,070	1,711	59.9	1,898	11.0	2,169	14.3
Adjusted PAT	528	410	(22.4)	1,070	1,699	58.8	1,898	11.7	2,169	14.3
PAT margin (%)	9.5	11.7	-	10.4	15.1	-	13.7	-	14.0	-
EPS (Rs.)	5.7	9.2	62.5	25.1	39.8	58.6	44.5	11.7	50.9	14.3

## HEG

Maintain Outperformer

Price: Rs 370

BSE Index: 17,559

03 May 2010

### 4QFY10 Result – Margins hammered beyond expectations

**HEG Limited's (HEG) PAT was exactly in line with our estimates. Revenues were higher than expected mainly on account of higher volumes and higher contribution from power (higher generation). The EBITDA margin declined by a massive 1,110 bps on a QoQ basis (the EBITDA was thus actually lower than our estimate) mainly on account of lower graphite electrode realisations and rupee appreciation. This resulted in a QoQ decline of 14.7% in PAT despite higher revenues, higher other income and lower interest & tax expenses. PAT, including a pre-tax exceptional loss of Rs 17 mn, stood at Rs 393 mn (our estimate was Rs 389 mn) versus Rs 457 mn in 3QFY10.**

### Highlights

- During the quarter, the capacity utilisation level of the graphite electrode division was in excess of 90%. The company is confident of achieving 80-90% of capacity utilisation in FY11.
- During the quarter, the company commenced planned capex from 66,000 to 80,000 at its Mandideep facility. The enhanced capacity would come up at a cost of Rs 2,250 mn and would be completed in next 18 months.

### Outlook and valuation

We expect volumes to grow due to better capacity utilisation. However, EBITDA margins are expected to be under pressure on account of lower graphite electrode realisation/higher material cost incidence. At the current level, the stock is trading at 8.3x FY11E and 7.3x FY12E earnings. We maintain our earnings estimates, target price and Outperformer rating on the stock.

**Income Statement**

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
<b>Net Sales</b>	<b>10,290</b>	<b>11,314</b>	<b>13,826</b>	<b>15,543</b>
Growth (%)	8.8	10.0	22.2	12.4
Operating Expenses	(7,712)	(7,888)	(9,854)	(11,101)
Operating Profit	2,578	3,426	3,972	4,442
<b>EBITDA</b>	<b>2,578</b>	<b>3,426</b>	<b>3,972</b>	<b>4,442</b>
Growth (%)	(5.7)	32.9	15.9	11.8
Depreciation	(466)	(524)	(551)	(600)
Other Income	169	102	130	125
<b>EBIT</b>	<b>2,281</b>	<b>3,004</b>	<b>3,550</b>	<b>3,967</b>
Interest Paid	(667)	(593)	(688)	(695)
Pre-tax profit (before non-recurring items)	1,614	2,411	2,863	3,272
Non-recurring items	-	12	-	-
Pre-tax profit (after non recurring items)	1,614	2,423	2,863	3,272
Tax (current + deferred)	(544)	(713)	(965)	(1,103)
Net Profit	1,070	1,711	1,898	2,169
<b>Reported Pat</b>	<b>1,070</b>	<b>1,711</b>	<b>1,898</b>	<b>2,169</b>
<b>Adjusted net profit</b>	<b>1,070</b>	<b>1,699</b>	<b>1,898</b>	<b>2,169</b>
Growth (%)	(26.9)	58.8	11.7	14.3

**Balance Sheet**

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Current assets	9,073	10,160	11,776	12,465
Cash & Marketable Securities	64	156	285	283
Other Current Assets	9,010	10,004	11,491	12,181
Investments	835	900	1,000	1,400
Net fixed assets	6,983	6,644	7,097	7,497
<b>Total assets</b>	<b>16,891</b>	<b>17,704</b>	<b>19,873</b>	<b>21,362</b>
Current Liabilities	1,400	2,314	2,747	3,228
Total debt	8,820	7,700	8,200	7,800
Other non-current liabilities	750	750	750	750
<b>Total Liabilities</b>	<b>10,970</b>	<b>10,764</b>	<b>11,697</b>	<b>11,778</b>
Share capital	426	426	426	426
Reserves & Surplus	5,510	6,518	7,750	9,158
Less : Misc. Expenditure	(14)	(3)	-	-
<b>Shareholder's funds</b>	<b>5,921</b>	<b>6,941</b>	<b>8,176</b>	<b>9,584</b>
<b>Total equity &amp; liabilities</b>	<b>16,891</b>	<b>17,704</b>	<b>19,873</b>	<b>21,362</b>
<b>Capital Employed</b>	<b>15,492</b>	<b>15,390</b>	<b>17,126</b>	<b>18,134</b>

**Cash Flow Statement**

Yr end 31 Mar (Rs mn)	FY09	FY10P	FY11E	FY12E
Pre-tax profit	1,614	2,423	2,863	3,272
Depreciation	(456)	(524)	(548)	(600)
Chg in working capital	(1,207)	(1,027)	(1,372)	(443)
Total tax paid	(605)	(45)	(713)	(965)
<b>Cash flow from Oper. (a)</b>	<b>258</b>	<b>1,875</b>	<b>1,326</b>	<b>2,464</b>
Capital expenditure	(722)	(158)	(1,000)	(1,000)
Chg in investments	(532)	(65)	(100)	(400)
Others	(653)	(18)	3	-
<b>Cash flow from Inv. (b)</b>	<b>(1,907)</b>	<b>(240)</b>	<b>(1,097)</b>	<b>(1,400)</b>
<b>Free cash flow (a+b)</b>	<b>(1,649)</b>	<b>1,634</b>	<b>230</b>	<b>1,064</b>
Equity raised / (repaid)	(281)	(101)	-	-
Debt raised / (repaid)	1,703	(1,120)	500	(400)
Dividend (incl tax.)	(156)	(321)	(600)	(666)
<b>Cash flow from fin. (c)</b>	<b>1,282</b>	<b>(1,543)</b>	<b>(100)</b>	<b>(1,066)</b>
<b>Net chg in cash (a + b + c)</b>	<b>(368)</b>	<b>92</b>	<b>130</b>	<b>(2)</b>

**Key Ratios**

Yr end 31 Mar (%)	FY09	FY10P	FY11E	FY12E
Adjusted EPS (Rs.)	25.1	39.8	44.5	50.9
Growth	(23.9)	58.6	11.7	14.3
Book NAV/Share (Rs)	135.0	158.8	187.7	220.8
Dividend/Share (Rs)	6.4	12.0	13.4	15.3
Dividend payout ratio	30.0	35.3	35.1	35.1
Tax	33.7	29.4	33.7	33.7
EBITDA margin	25.1	30.3	28.7	28.6
EBIT margin	22.2	26.6	25.7	25.5
RoCE	15.9	19.5	21.8	22.5
Net debt / Equity	147.9	108.7	96.8	78.4

**Valuations**

Yr end 31 Mar (x)	FY09	FY10P	FY11E	FY12E
PER	14.7	9.3	8.3	7.3
PCE	10.3	7.1	6.4	5.7
Price/Book	2.7	2.3	2.0	1.7
Yield (%)	1.7	3.3	3.6	4.1
EV/Net sales	2.4	2.1	1.7	1.5
EV/EBITDA	9.5	6.8	6.0	5.2

**Du Pont Analysis – ROE**

Yr end 31 Mar (x)	FY09	FY10P	FY11E	FY12E
Net margin (%)	10.4	15.0	13.7	14.0
Asset turnover	0.7	0.7	0.7	0.8
Leverage factor	2.8	2.7	2.5	2.3
Return on equity (%)	18.9	26.4	25.1	24.4

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**Analyst Declaration:** I, Pramod Tiwari, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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  4. **SELL:** Potential downside of < -25% (absolute returns)
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