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**REPORT OF THE AUDIT COMMITTEE OF HEG LIMITED RECOMMENDING THE MODIFIED DRAFT COMPOSITE SCHEME OF ARRANGEMENT AMONGST HEG LIMITED AND HEG GRAPHITE LIMITED AND BHILWARA ENERGY LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS, AT ITS MEETING HELD ON MONDAY, 10<sup>th</sup> MARCH 2025, AT BOARD ROOM, 5TH FLOOR, BHILWARA TOWERS - I, A-12, SECTOR-1, NOIDA – 201301**

The following audit committee members were present:

**Members Present:**

| S. No. | Name                    | Chairman / Member | Participation Medium |
|--------|-------------------------|-------------------|----------------------|
| 1      | Shri Satish Chand Mehta | Chairman          | Physical             |
| 2      | Shri Shekhar Agarwal    | Member            | Through VC           |
| 3      | Dr. Kamal Gupta         | Member            | Physical             |
| 4      | Smt. Ramni Nirula       | Member            | Through VC           |
| 5      | Shri Nand Gopal Khaitan | Member            | Physical             |
| 6      | Shri Jayant Davar       | Member            | Through VC           |

**Tax Advisors & Project Coordinator: Ernst & Young LLP (EY)**

Shri Sanjay Aggarwal

Shri Puneet Sachdev – Through VC

**Legal Counsel/Consultant: Khaitan & Co., Advocate (KCO)**

Shri Mehul Shah

Shri Pashupati Nath

**Registered Valuer: PwC Business Consulting Services LLP (PWC)**

Shri Neeraj Jain

Shri Dilip Reddy

Shri Shubham Agarwal

**Merchant Banker: ICICI Securities Limited (Isec) – Through VC**

Shri Raghavan Subramanian

Shri Deepak Nawal

**In Attendance:**

Shri Manish Gulati - Executive Director

Shri Om Prakash Ajmera - Group Chief Financial Officer

Shri Puneet Anand - Chief Strategy Officer

Shri Ravi Kant Tripathi - Chief Financial Officer

Shri Vivek Chaudhary - Company Secretary

**HEG LIMITED**



**Corporate Office :**  
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Corporate Identification No.: L23109MP1972PLC008290



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## 1. Background:

- 1.1. A meeting of Audit Committee of HEG Limited ("**Company**" or "**Demerged Company**" or "**Transferee Company**") was held on 22<sup>nd</sup> May 2024 to *inter-alia*, consider and recommend the draft Composite Scheme of Arrangement amongst the Company and HEG Graphite Limited ( "**Resulting Company**") and Bhilwara Energy Limited ("**Transferor Company**") and their respective shareholders and creditors under Section 230 to 232 and other applicable provisions of the Companies Act, 2013 ("**Act**") ("**Scheme**").
- 1.2. In view of the decision of the Transferor Company for the issue of further shares to one or more investors not being promoter(s) or persons acting in concert with the promoters of the companies involved in the Scheme, in one or more tranches, aggregating to not more than 4,14,39,827 shares i.e. 20% of the fully diluted share capital of the Transferor Company and taking into consideration the communication of BSE Limited i.e. Designated Stock Exchange *vide* its email dated 27<sup>th</sup> February, 2025, which shared the observations of Securities and Exchange Board of India ("**SEBI**") on the proposed infusion of funds in the Transferor Company, and consequent impact that it may have on the consideration (valuation and swap ratio) under the Scheme, the Scheme is required to be modified.
- 1.3. Accordingly, it is now proposed to modify the said Scheme, after taking into account, *inter alia* the updated reports issued by the registered valuer and merchant banker. The Audit Committee will consider and recommend the modified draft Composite Scheme of Arrangement amongst the Company and HEG Graphite Limited and Bhilwara Energy Limited and their respective shareholders and creditors under Sections 230 to 232 and other applicable provisions of the Act ("**Modified Scheme**"). The Modified Scheme includes the following:
  - (a) demerger, transfer and vesting of the Demerged Undertaking (as defined in the Modified Scheme) from the Company into the Resulting Company on a going concern basis; and
  - (b) the amalgamation of the Transferor Company with the Company.
- 1.4. The Company is incorporated under the provisions of the Companies Act, 1956. The equity shares of the Company are listed on BSE Limited and the National Stock Exchange of India Limited.
- 1.5. The Transferor Company and the Resulting Company are unlisted companies incorporated under the provisions of the Companies Act, 1956 and the Act, respectively.
- 1.6. The Appointed Date (*as defined in the Modified Scheme*) means the opening business hours of 1 April 2024 or such other date as may be mutually agreed by the respective Board of the companies (*as defined in the Modified Scheme*).

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- 1.7. This report of Audit Committee is made in order to comply with the requirements of the Securities and Exchange Board of India ("SEBI") (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations") and SEBI Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023 ("SEBI Master Circular") including amendments thereto.
- 1.8. The following documents were, inter alia, placed before the Audit Committee, duly initialed by the Executive Director of the Company for the purpose of identification:
- (a) Draft Modified Scheme;
  - (b) Reports dated 10<sup>th</sup> March 2025 issued by PwC Business Consulting Services LLP (Registration No. IBBI/RV-E/02/2022/158), Registered Valuer, describing the methodology adopted by them in determining the consideration;
  - (c) Fairness Opinion dated 10<sup>th</sup> March 2025 issued by ICICI Securities Limited (Registration No. INM000011179), an Independent SEBI registered Merchant Banker ("Fairness Opinion"), providing an opinion on the fairness of the consideration specified in the reports of the Registered Valuer; and
  - (d) Certificate dated 10<sup>th</sup> March 2025, issued by M/s SCV & Co LLP (Firm Registration No. 000235N/N500089), the Statutory Auditors of the Company, confirming the accounting treatment stated in the Modified Scheme is in compliance with the accounting standards prescribed under Section 133 of the Act and other generally accepted accounting principle.

## 2. Proposed Modified Composite Scheme of Arrangement

### 2.1 NEED FOR THE ARRANGEMENT AND RATIONALE OF THE MODIFIED SCHEME:

The Audit Committee of the Company noted the rationale and the benefits of the Modified Scheme which, *inter alia*, are as follows:

1. Over the course of time, core businesses of the Demerged Company viz., manufacturing graphite electrodes (including other carbon products) and generation of thermal and hydel power have acquired critical mass. Each of the said businesses require flexibility and independence to grow faster in the fast-changing technology and innovation driven environment.

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2. Each of the core businesses mentioned above has a differentiated strategy, different industry specific risks and operate inter alia under different market dynamics and growth trajectory. The nature and competition involved in each of the businesses is distinct from others and consequently each business or undertaking is capable of attracting a different set of investors, strategic partners, lenders and other stakeholders. Further, it is important to create a structure which is amenable for future growth keeping in view different growth trajectory for each business segment.
3. In view thereof, it is proposed to segregate the core businesses of the Demerged Company pursuant to the Modified Scheme. The said segregation, is expected, *inter alia*, to result in following benefits:
  - (a) unlocking the value of each of the businesses for the shareholders of the Demerged Company, attracting different sets of investors, strategic partners, lenders and other stakeholders having a specific interest in the respective businesses and providing better flexibility in accessing capital;
  - (b) segregating different businesses having different risk and return profiles, and providing investors with better flexibility to select investments which best suit their investment strategies and risk profile;
  - (c) enabling focused growth strategy for each of the businesses for opportunities specific to each business;
  - (d) creating greater visibility on performance of each of the businesses;
  - (e) providing a separate growth path and focussed management for each of the businesses;
  - (f) enhancing operational efficiency; and
  - (g) pursuing growth in the respective business verticals with focused management approach and de-risking the businesses from each other.
4. The Transferee Company is desirous of consolidating the assets and liabilities of the Transferor Company pursuant to amalgamation. Consolidating the assets and liabilities of the Transferor Company and the Transferee Company would streamline the corporate structure by consolidating multiple entities and enable efficiency in operations and processes through reduction in legal and regulatory compliances and related administrative costs.

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5. The amalgamation will also result in the following benefits:
- (a) establishing independent brand identity of future oriented and new-age business;
  - (b) combining resources, creating better synergies, optimally utilising resources and greater economies of scale and deriving operating efficiencies from adoption of existing technology-enabled processes of the Transferor Company; and
  - (c) eliminating multiple entities, legal and regulatory compliances and reduction of administrative costs.
6. The Modified Scheme is in the interests of all stakeholders of each of the Demerged/Transferee Company, the Transferor Company and the Resulting Company.

## 2.2 SYNERGIES OF BUSINESS OF THE COMPANIES INVOLVED IN THE MODIFIED SCHEME

The background and information of the companies is, *inter alia*, as under:

- (a) The Company is in the business of manufacturing and exporting of graphite electrodes in India and operates world's largest single-site integrated graphite electrodes plant. The Company also operates three power generation facilities with a total capacity of about 76.5 MW;
- (b) Pursuant to the Modified Scheme, the Resulting Company will carry on the Graphite Business (*as defined in the Modified Scheme*);
- (c) The Transferor Company is engaged in the business of the establishment, operation and maintenance of power generating stations and tie-lines, sub-stations and main transmission lines connected therewith. Currently, the Transferor Company is engaged in generation of wind power through 14 MW wind power project situated in Maharashtra which had become operational during the financial year 2013-14. Further, the Transferor Company has investments as follows:
  - i. 51% in Malana Power Company Limited in joint venture with StatKraft, Norway which owns 86 MW hydroelectric project in Himachal Pradesh;
  - ii. Malana Power Company Limited has further investment in wholly owned subsidiary AD Hydro Power Limited, which owns 192 MW hydroelectric project in Himachal Pradesh; and
  - iii. 74% in Replus Engitech Private Limited which is into business of battery energy storage solutions.

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- (d) It is proposed to consolidate all the resources of the Transferor Company with the Company and streamline the promoter holding structure. Further, pursuant to the Modified Scheme, it is also contemplated to reorganise, segregate and demerge the Graphite Business from the Company to the Resulting Company; and
- (e) Further, the benefits arising out of the proposed Modified Scheme are stated in paragraph 2.1 above.

## 2.3 IMPACT OF THE MODIFIED SCHEME ON THE COMPANY AND ITS SHAREHOLDERS

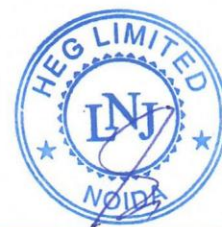
### I. For demerger, transfer and vesting of the Demerged Undertaking from the Company into the Resulting Company

- (a) In terms of Part II of the Modified Scheme, as consideration for the transfer and vesting of the Demerged Undertaking of the Company to the Resulting Company, all the equity shareholders (promoter and non-promoter) of the Company, as on the Record Date (*as defined in the Modified Scheme*) shall receive equity shares of the Resulting Company in the same proportion as their holding in the Company. There will be no change in the economic interest of shareholders of the Company, before and after Modified Scheme; and
- (b) After the effectiveness of the Modified Scheme and subject to receipt of regulatory approvals, the equity shares of the Resulting Company issued as consideration pursuant to the Modified Scheme, shall be listed on BSE Limited and the National Stock Exchange of India Limited.

### II. For amalgamation of the Transferor Company with the Company

- (a) In terms of Part III of the Modified Scheme, as consideration for the amalgamation of the Transferor Company with Company, all the equity shareholders (promoter and non-promoter) of the Transferor Company (except the Company itself), as on the Effective Date (*as defined in the Modified Scheme*) shall receive equity shares of the Company;
- (b) Upon the Modified Scheme becoming effective, the Transferor Company shall be dissolved without being wound up and the shareholders of the Transferor Company (except the Company itself) shall become shareholders of the Company; and

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- (c) After the effectiveness of the Modified Scheme and subject to receipt of regulatory approvals, the equity shares of the Company issued as consideration pursuant to the Modified Scheme, shall be listed on BSE Limited and the National Stock Exchange of India Limited.

The Modified Scheme will result in benefits and/or synergies to the Company as listed in paragraph 2.1 and 2.2 of this report.

## 2.4 COST BENEFIT ANALYSIS OF THE MODIFIED SCHEME

Although the Modified Scheme would lead to incurring of some costs towards its implementation, however, the benefits of the Modified Scheme over a longer period would far outweigh such costs for the stakeholders of the Company.

## 3. Recommendation of the Audit Committee

Taking into consideration the draft Modified Scheme, Reports issued by the Registered Valuer, Fairness Opinion and draft certificate issued by Statutory Auditors of the Company, need and rationale of the Modified Scheme, synergies of the business of the companies, impact of the Modified Scheme on the Company and its shareholders, cost benefit analysis of the Modified Scheme and other documents placed before the Audit Committee, have recommended the draft Modified Scheme for the favorable consideration and approval by the Board of Directors of the Company.

By Order of the Audit Committee

For and on Behalf of **HEG LIMITED**

**Satish Chand Mehta**  
Chairman of the Audit Committee  
DIN: 02460558

Place: Noida

Date: 10<sup>th</sup> March 2025



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