LNJ Bhilwara Group Company

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HEG/SECTT/2025

29th May, 2025

1	**BSE Limited** P J Towers, Dalal Street MUMBAI - 400 001. **Scrip Code : 509631**	2	**National Stock Exchange of India Limited** Exchange Plaza, 5th Floor Plot No.C/1, G Block, Bandra - Kurla Complex Bandra (E), MUMBAI - 400 051. **Scrip Code : HEG**

Sub: Update on Credit Rating.

Dear Sirs,

This is to inform you that India Ratings and Research (Ind-Ra) maintains HEG on Rating Watch with Developing Implications; as per attached rationale.

Kindly take the same on record.

Thanking you,

Yours faithfully,
For **HEG Limited**

Vivek Chaudhary
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Encl : as above.

HEG LIMITED

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ISO 14001 BUREAU VERITAS Certification

India Ratings Maintains HEG on Rating Watch with Developing Implications; Rates Additional Limits

May 29, 2025 | Electrodes & Refractories

India Ratings and Research (Ind-Ra) has taken the following rating actions on HEG Limited and its debt instruments:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Issuer rating	-	-	-	-	IND AA-/Rating Watch with Developing Implications	Maintained on Rating Watch with Developing Implications
Commercial paper	-	-	30-365 days	INR1,000	IND A1+/Rating Watch with Developing Implications	Maintained on Rating Watch with Developing Implications
Fund-based working capital limits	-	-	-	INR9,500	IND AA-/Rating Watch with Developing Implications/ IND A1+/Rating Watch with Developing Implications	Maintained on Rating Watch with Developing Implications
Fund-based working capital limits	-	-	-	INR1,500	IND AA-/Rating Watch with Developing Implications/ IND A1+/Rating Watch with Developing Implications	Assigned; placed on Rating Watch with Developing Implications
Non-fund-based working capital limits	-	-	-	INR4,000 (reduced from INR4,950)	IND AA-/Rating Watch with Developing Implications/ IND A1+/Rating Watch with Developing Implications	Maintained on Rating Watch with Developing Implications

Analytical Approach

Ind-Ra continues to take a standalone approach of HEG to review the ratings. The company has no significant linkages with its subsidiary/associates, which form a small part of the group operations.

Detailed Rationale of the Rating Action

Ind-Ra has maintained the ratings of HEG on Rating Watch with Developing Implications following the approval of a modified scheme of arrangement among HEG, the new entity HEG Graphite Limited and Bhilwara Energy Limited (BEL) by the boards of HEG and BEL on 10 March 2025, after the initial announcement of the scheme arrangement on stock exchanges on 22 May 2024. The modified scheme is subject to the receipt of approval from the statutory, regulatory and customary authorities, including approvals from stock exchanges, jurisdictional National Company Law Tribunal and the shareholders and creditors of the companies involved in the modified scheme. As per the management, the modified scheme of arrangement is likely to be approved by all the relevant authorities by end-December 2025. Ind-Ra will monitor the developments regarding the regulatory approval and resolve the Rating Watch once more clarity emerges over the next six-to-nine months.

As per the scheme of arrangement, HEG's graphite electrode (GE) business and the captive power plants along with the acquisition of a 9.98% stake in Graftech International for INR2,832.1 million over March 2024-March2025, will be demerged into HEG Graphite Limited. Furthermore, BEL, which was held 51% by the promoters and promoter-held company and 49% by HEG at end-December 2024, will be merged with HEG to form HEG Greentech. Pursuant to the merger with HEG to form HEG Greentech, the 49% shareholding of BEL held by HEG will be cancelled. BEL has a 74% stake in Replus Engitech Private Limited (RePlus) and a 51% stake in Malana Power Company Limited, which, in turn, held 100% in AD Hydro Power Limited; TACC Limited is a 100% subsidiary of HEG. With the merger of BEL with HEG, the subsidiaries under BEL will now be subsidiaries of HEG Greentech. After the approval of the modified scheme of arrangement, HEG Greentech will hold a 74% stake in RePlus and 51% in Malana Power Company, which in turn will hold 100% in AD Hydro Power. TACC will become a 100% subsidiary of HEG Greentech. Upon the completion of the modified scheme of arrangement, the promoters will hold a 60.62% stake in HEG Greentech with the remaining being held by public and new investors in BEL.

The ratings also factor in the fact that a majority of cash and cash equivalents as at FYE25 are to be retained in HEG Greentech, which may lead to a moderation in the credit profile of the resultant entity HEG Graphite Ltd in the near term. The transaction is likely to be completed by end-December2025 as per management; more clarity shall emerge on the credit profile and liquidity of the resultant entity and any further cash support to HEG Greentech will remain a key monitorable. Thus, the ratings have been maintained on Rating Watch with Developing Implications.

List of Key Rating Drivers

Strengths

- Likely improvement in operational performance in FY26
- Strong demand fundamentals in medium-to-long term
- Spreads likely to improve in FY26

Weaknesses

- Limited geographical and product diversification
- Inherent industry risks

Detailed Description of Key Rating Drivers

Likely Improvement in Operational Performance in FY26 after Moderate Performance in FY25: HEG's revenue dipped 10% yoy to INR21.53 billion in FY25 (FY24: INR23.95 billion, FY23: INR24.67 billion), despite 10% yoy higher volumes, due to an 18% yoy decline in GE sales realisation. However, the decline in sales realisation was partially offset by a decline in the needle coke (NC; key raw material) price, leading to a decline in the spread resulting in the EBITDA margin falling to 12% (16%, 25%), Despite a correction in the prices of both GE and NC, HEG's overall margin declined due a time lag as GE has a long manufacturing process of four-to-five months, which entails HEG to carry higher inventory. HEG's absolute EBITDA decreased to INR2.61 billion in FY25 (FY24: INR3.84 billion, FY23: INR6.19 billion), against Ind-Ra's expectation, mainly on account of around INR801.6 million marked-to-market (MTM) losses on the fair valuation of investment in Graftech International; the adjusted EBITDA is INR3.41 billion with margin of 15.89%. GE demand was impacted due to a reduced steel demand because of the weak global economic outlook and elevated inflation pressures. Ind-Ra expects an improvement in the company's operational performance, with stabilisation of prices and sustained capacity utilisation to meet the anticipated higher demand in FY26. Given the sustained global demand, including that arising out of closed units, the capacity utilisation (including the 20,000 tonnes capacity available from 4QFY24) was around 80% in FY25, in line with the previous years'. Ind-Ra expects the demand to recover in FY26, driven by growth in electric arc furnace (EAF) over the traditional blast furnace/basic oxygen furnace following the developed world's focus on substantial decarbonisation measures.

Strong Demand Fundamentals in Medium-to-long Term: With EAF production being used for around 50% of the total ex-China steel production, Ind-Ra expects GE demand to become stable over FY26. China's steel production through EAF is likely to increase to 15% by 2025 and 20% by 2030 for decarbonisation. Also, the US and Europe's focus on decarbonisation would accelerate the demand for GE. Hence, global steel industry's efforts to decarbonise will drive a continuous shift to EAF steelmaking which supports the long-term GE demand growth.

Ind-Ra believes China's GE overcapacity will continue to be a risk for the company's non-ultra-high power (UHP) GE. This risk, however, will be alleviated with the Chinese government announcing the replacement of 236 million tonnes inefficient capacities with EAF by 2025, leading to higher domestic consumption of GE. For every tonne of steel produced, EAF production emits one fourth of the total carbon emitted by a blast furnace. Ind-Ra expects the domestic steel demand to be healthy in FY26. Furthermore, there has neither been any new entrant in the GE segment nor any capacity enhancement announced in the western markets over the past 25 years. In fact, closure of some smaller graphite units in Europe and other geographies over the last two years provides an opportunity for sizeable players such as HEG.

Spreads Likely to Improve in FY26: HEG's profitability is susceptible to price volatility in GE. Ind-Ra believes global demand will pick up in FY26 on the back of a higher acceptance of low carbon emissions. Accordingly, the spreads are likely to inch up in FY26 over FY25 levels. As per the management, GE prices are likely to improve once the demand increases in FY26.

Ind-Ra expects the global steel output to moderate in FY26 with an expectation of a moderate demand recovery in China, slow recovery in Eurozone but robust demand in India. The expectation of lower steel output in China in 2025 is also on account of its shift to EAF rather than traditional blast furnace.

However, HEG's management stated that the capex announcements by some large steel companies in the US and Europe, among others, to increase the capacities by around 90 million tonnes by establishing new EAF-based steel capacities will support the medium-term demand. Out of this, 10 million tonnes had already come on stream till FY25 and about 30 million tonnes would come on stream by FY26 and the rest by 2030. Furthermore, in a strategic investment, HEG has acquired around 9.98% stake in Graftech International for INR2,832.1 million, funded through internal accruals. However, any other debt-led capex or any support to any group entity may impact the credit metrics and will be a key monitorable.

Limited Geographical and Product Diversification: The company operates through a single plant at Mandideep in Madhya Pradesh. While the single plant supports better operational efficiencies and absorption of fixed costs, it may impact operations in the possibility of any unforeseen event such as natural calamity and political unrest. While demand seems robust in the medium-to-long term, any geopolitical events leading to demand sluggishness or any unfavourable changes in raw material prices could impact the single product and hence the operations of the company. On the contrary, a single location provides operational efficiencies and transportation costs with only plant in the world to have a 1,00,000 tonnes GE capacity.

Inherent Industry Risks: HEG is exposed to cyclicality in the steel business, as well as to risks arising from the volatility in the costs of raw materials, mostly crude/coal derivatives. Moreover, the company has a single manufacturing unit, and its cash flows are dependent on single product revenue. However, it is well diversified in terms of markets and customers across geographies, which mitigates this risk to some extent.

Liquidity

Adequate: HEG had healthy unrestricted cash and bank balances, current liquid investments, and unencumbered fixed deposits of INR4.44 billion at FYE25 (FYE24: INR6.85 billion, FYE23: INR7.59 billion). HEG's debt comprising short-term borrowings, was INR5.85 billion at FYE25 (FYE24: INR6.19 billion, FYE23: INR7.41 billion). The average utilisation of the fund-based working capital limits was around 55% in over the 12 months ended March 2025. The working capital debt is in the form of export packing credit limits, which have an interest subvention, thus reducing HEG's cost of borrowings. Ind-Ra expects HEG to maintain a liquid balance sheet and low reliance on external debt, leading to sustained credit metrics in FY26. HEG's cash flow from operations moderated to INR3.19 billion in FY25 (FY24: INR6.19 billion, FY23: INR1.41 billion), due to increased working capital requirements. Ind-Ra expects HEG's free cash flow to remain positive and improve in FY26 due to a likely improvement in the operational performance, working capital cycle and limited capex outlay.

Rating Sensitivities

The Rating Watch with Developing Implications indicates that the ratings could be upgraded, affirmed, or downgraded. Ind-Ra would resolve the Rating Watch upon the receipt of the requisite statutory and regulatory approval on the modified scheme of arrangement for the amalgamation of BEL with HEG to form HEG Greentech along with better clarity on the credit profile and liquidity of the resultant entity post amalgamation from the management.

Any Other Information

Not applicable

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on HEG, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

Formed in 1977, HEG is promoted by LNJ Bhilwara Group. It has a GE manufacturing unit with a capacity of 100,000 tonnes per annum in Madhya Pradesh. The company is promoted by Ravi Junjhunwala and the promoters held around 56% stake in the company, the balance 44% is public shareholding.

Key Financial Indicators

Particulars	FY25	FY24
Revenue (INR million)	21,527	23,949
EBITDA (INR million)	2,609	3,840
EBITDA margin (%)	12.1	16.0
Interest coverage ratio (x)	6.66	10.74
Net leverage (including letter of credit acceptances) (x)	0.75	-0.17
Source: Ind-Ra, Company data		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook		
				31 May 2024	11 July 2023	12 July 2022

Issuer rating	Long-term	NA	IND AA-/Rating Watch with Developing Implications	IND AA-/Rating Watch with Developing Implications	IND AA-/Positive	IND AA-/Stable
Commercial paper	Short-term	INR1,000	IND A1+/Rating Watch with Developing Implications	IND A1+/Rating Watch with Developing Implications	IND A1+	IND A1+
Non-fund-based working capital limits	Long-term/ Short-term	INR4,000	IND AA-/ Rating Watch with Developing Implications/IND A1+/Rating Watch with Developing Implications	IND AA-/Rating Watch with Developing Implications/IND A1+/Rating Watch with Developing Implications	IND AA-/Positive / IND A1+	IND AA-/Stable/IND A1+
Fund-based working capital limits	Long-term/ Short-term	INR11,000	IND AA-/ Rating Watch with Developing Implications/IND A1+/Rating Watch with Developing Implications	IND AA-/ Rating Watch with Developing Implications/IND A1+ Rating Watch with Developing Implications	IND AA-/Positive / IND A1+	IND AA-/Stable/IND A1+

Bank wise Facilities Details

The details are as reported by the issuer as on (29 May 2025)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	State Bank of India	Fund Based Working Capital Limit	5000	IND AA-/Rating Watch with Developing Implications/IND A1+
2	IDBI Bank	Fund Based Working Capital Limit	1350	IND AA-/Rating Watch with Developing Implications/IND A1+
3	CTBC Bank	Fund Based Working Capital Limit	300	IND AA-/Rating Watch with Developing Implications/IND A1+
4	HDFC Bank Limited	Fund Based Working Capital Limit	1200	IND AA-/Rating Watch with Developing Implications/IND A1+
5	Yes Bank Ltd	Fund Based Working Capital Limit	100	IND AA-/Rating Watch with Developing Implications/IND A1+
6	Kotak Mahindra Bank	Fund Based Working Capital Limit	400	IND AA-/Rating Watch with Developing Implications/IND A1+
7	ICICI Bank	Fund Based Working Capital Limit	1550	IND AA-/Rating Watch with Developing Implications/IND A1+
8	Axis Bank Limited	Fund Based Working Capital Limit	1100	IND AA-/Rating Watch with Developing Implications/IND A1+
9	State Bank of India	Non-Fund Based Working Capital Limit	3000	IND AA-/Rating Watch with Developing Implications/IND A1+

10	Axis Bank Limited	Non-Fund Based Working Capital Limit	200	IND AA-/Rating Watch with Developing Implications/IND A1+
11	IDBI Bank	Non-Fund Based Working Capital Limit	800	IND AA-/Rating Watch with Developing Implications/IND A1+

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Commercial paper	Low
Fund based working capital lines	Low
Non-fund-based limits	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

Contact

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Solicitation Disclosures

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Corporate Rating Methodology

Policy for Placing Ratings on Rating Watch

The Rating Process

Short-Term Ratings Criteria for Non-Financial Corporates