

REPORT OF THE AUDIT COMMITTEE OF ISMT LIMITED RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT AND MERGER OF ISMT LIMITED WITH KIRLOSKAR FERROUS INDUSTRIES LIMITED (“KFIL”/ “TRANSFEREE COMPANY”)

This Report is prepared, considered and approved by the Audit Committee (“Committee”) of ISMT Limited (“Company”) pursuant to its meeting held on November 4, 2022 and adjourned to November 5, 2022 at Pune where the following members were present:

PRESENT

1. Mr. R Poornalingam - Chairman
2. Mr. S Venkataramani
3. Dr. Shalini Sarin

Leave of absence was granted to Mr. Kanakraj M.

1. Background

1.1 A meeting of the Committee was held on November 4, 2022 and adjourned to November 5, 2022, *inter alia*, to consider and recommend the draft Scheme of Arrangement and Merger of the Company (“ISMT”/ “Transferor Company”) with KFIL (“Scheme”) under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 (“Act”).

1.2 The draft Scheme and other documents placed before the Committee, *inter alia*, provided the following:

- (a) the amalgamation of Transferor Company, including its entire business & undertaking ‘with and into KFIL’ and the consequent issue of 17 fully paid-up equity shares (“New Equity Shares”) of Rs. 5/- each of KFIL to the Shareholders of Transferor Company (other than KFIL) for every 100 fully paid-up equity shares of Rs. 5/- each held by Shareholders of the Transferor Company;
- (b) dissolution without winding up of Transferor Company;
- (c) transfer of the authorized Share Capital from Transferor Company to KFIL and consequent amendment to the Memorandum of Association of KFIL;
- (d) listing of New Equity Shares of KFIL on BSE Limited; and
- (e) the Appointed Date will be April 1, 2023.

The Scheme shall be filed with the National Company Law Tribunal, Mumbai Bench (“NCLT”) under Sections 230 to 232 and other applicable provisions of the Act and has been drawn up in compliance with Section 2(1B) and other applicable provisions of the Income Tax Act, 1961 and other applicable laws including the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI Master Circular SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021 (“SEBI Circular”).

1.3 In terms of the SEBI Circular, a report from the Committee is required, recommending the draft Scheme, taking into consideration *inter alia*, the Valuation Report, and commenting on the need for the Scheme, rationale for the Scheme, cost benefit analysis of the Scheme, synergies of business of the entities involved in the Scheme and impact of the Scheme on the Shareholders of the Company. This report of the Committee is made in order to comply with the requirements of the SEBI Circular.



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2. Documents perused by the Committee

The Committee, *inter alia*, considered the following documents during the meeting:

- (a) The Scheme
- (b) Valuation Report dated November 5, 2022 issued by Mr. Amit Jain, Independent Registered Valuer, having registration number IBBI/RV/05/2019/12675 ("**Valuation Report**") providing the share exchange ratio as under:

"17 shares of KFIL will be issued against every 100 shares of ISMT"

- (c) Fairness Opinion dated November 5, 2022 issued by Keynote Financial Services Limited, Independent Merchant Banker, registered with SEBI, having registration number INM000003606 providing its opinion on fairness of the share exchange ratio proposed in the Valuation Report ("**Fairness Opinion**").

3. Need for the Arrangement and Rationale of the proposed Scheme:

- a. Synergy arising out of consolidation of the business of the Transferor Company and the Transferee Company will make the business activities more sustainable in the long term as well as help them grow at a faster pace;
- b. Create value for stakeholders including respective shareholders, customers, lenders and employees as the combined business would benefit from increased scale, expanded reach, higher cross selling opportunities to a larger base of customers, improvement in productivity amongst others;
- c. Better administration and cost optimization are expected to flow from more focused operational efforts, standardization and simplification of business processes, and the elimination of duplication, and rationalization of administrative expenses as well as compliance cost;
- d. Pooling of resources and achieving economies of scale;
- e. Greater integration and flexibility to Transferee Company and strengthen its position in terms of asset base, revenues and service range;
- f. The Transferee Company has fully backward integrated operations ranging from iron ore mines to machined castings as well as a very strong client base across the globe. The Transferor Company is one of the most diversified manufacturers of specialized seamless tubes in the world, producing tubes in the range of 6 to 273 mm diameter. Merging of the business of the Transferor Company will bring the benefits of forward integration and diversification of product portfolio to the business of the Transferee Company;
- g. The merger would result in mitigating the risks of the Transferor Company relating to procurement of certain input raw material; and
- h. The Transferor Company's investments and business plan had not panned out as expected and that led to its debt obligations becoming stressed. However, with combining of operations of the Transferor Company with the Transferee Company, benefits of better terms of finance and availability of capital will help in streamlining and improving the financial operations of the merged entity.



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4. Salient Features of the Proposed Scheme

- 4.1 the amalgamation of Transferor Company, including its entire business and undertaking 'with and into KFIL' and the consequent issue of 17 fully paid-up equity shares of Rs. 5/- each of KFIL to the Shareholders of Transferor Company (other than KFIL) for every 100 fully paid-up equity shares of Rs. 5/- each held by Shareholders of Transferor Company;
- 4.2 dissolution without winding up of the Transferor Company;
- 4.3 transfer of the authorized Share Capital from Transferor Company to KFIL and consequent amendment to the Memorandum of Association of KFIL;
- 4.4 listing of New Equity Shares of KFIL on BSE Limited;
- 4.5 the Appointed Date will be April 1, 2023; and
- 4.6 various other matters consequential or integrally connected therewith.

5. Synergies of business of the entities involved in the Scheme

The Committee discussed the rationale and expected benefits of the Scheme. After due deliberation, the Committee concluded that this merger will result in synergies and create a compelling value proposition for the stakeholders.

6. Impact of the Scheme on the Shareholders of the Company

The Valuation Report, Fairness Opinion and other related documents were presented before the Committee.

Considering the aforesaid Reports, the Shareholders of Transferor Company would be issued fully paid-up equity shares of KFIL in accordance with the share exchange ratio specified in the Valuation Report and Fairness Opinion and that there would be no adverse effect on the Shareholders of the Company.

7. Cost Benefit Analysis of the Scheme

Merging the operations of both the Companies would enable forward integration with value addition to the products of the Company. Further, this would result in economies of scale and a better financial position for future endeavors. The Committee believes that the proposed Scheme would provide an opportunity to improve the economic value of the Company.

Both Companies are already considered as market leaders, which enables exploring the cross-selling opportunity for the business of the Company and vice versa.

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

8. Proceedings of the Meeting

- (a) The Committee deliberated, discussed and focused on the Valuation Report to see if it is reasonable and satisfactory. The Committee noted that KFIL will issue and allot to each shareholder of Transferor Company 17 fully paid-up equity shares of Rs. 5/- each of KFIL for every 100 fully paid-up equity shares of Rs. 5/- each of Transferor Company.
- (b) The Committee noted that for determining the relative valuation of equity shares of Transferee Company and ISMT, Mr. Amit Jain, Independent Registered Valuer has carried out valuation analysis by placing reliance on Valuation Standards issued by the Institute of Chartered Accountants of India and thereafter by assigning appropriate weightage to the applicable internationally accepted methodologies.



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ISMT LIMITED

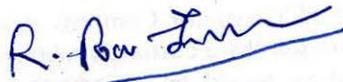
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- (c) The Market Approach (Market Price Method & Comparable Company Method for Transferor & Transferee Company) has been used to arrive at valuation of the companies under discussion.
- (d) Further, the Chairman of the Audit Committee enquired the Valuer whether it would not be better to adopt just the market price, since it reflects the true value of the Company and there are many assumptions in Comparable Company Method. In support, he highlighted a few mergers involving major companies where swap ratio was very close to the market price on the last day. The Audit Committee noted the response of the Valuer and Merchant Banker to this query that 'solely Market Price Method for arriving at the valuation cannot be considered as Market value of shares can be undervalued or overvalued, also, it will not apply to mid-size entities wherein the volumes are not quite high and there are several merger cases where solely Market Price Method was not adopted, but a combination of valuation techniques were used to arrive at the Fair Value'.

9. Recommendation of the Committee

Basis the above and after due deliberations, discussions and having considered the Scheme and its rationale and its benefits, Valuation Report, Fairness Opinion, impact of the Scheme on the Company and its Shareholders, cost benefit analysis of the Scheme, synergies of business and other documents, as placed, the Committee unanimously recommended the Scheme for approval of the Board of Directors of the Company.

For and on behalf of the Audit Committee of
ISMT Limited



R Poornalingam
Chairman

Date: November 5, 2022
Place: Pune



SCT-0123, SL-0102 (Facility ID:029)
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