

**REPORT OF THE COMMITTEE OF INDEPENDENT DIRECTORS 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 Committee of Independent Directors ("Committee") of ISMT Limited ("Company") pursuant to its meeting held on November 5, 2022 at Pune where the following Independent Directors were present:

**PRESENT**

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

**1. Background**

1.1 A meeting of the Committee was held on November 5, 2022 to consider & recommend the draft Scheme of Arrangement & Merger of the Company ("ISMT"/ "Transferor Company") with KFIL ("Scheme") under Sections 230 to 232 & other applicable provisions of the Companies Act, 2013 ("Act").

**1.2 Rationale for the proposed Scheme:**

- 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;
- 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;
- 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;
- Pooling of resources and achieving economies of scale;
- Greater integration and flexibility to Transferee Company and strengthen its position in terms of asset base, revenues and service range;
- 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;
- The merger would result in mitigating the risks of the Transferor Company relating to procurement of certain input raw material; and
- 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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1.3 The Committee also noted that the proposed Scheme *inter alia* provides for the following:

- (a) 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 such 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.

1.4 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 the SEBI Master Circular **SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665** dated November 23, 2021 ("**SEBI Circular**").

1.5 This report of the Committee is made pursuant to the requirements of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with the Master Circular number **SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665** dated November 23, 2021 issued by SEBI on the scheme of arrangement of listed entities.

## 2. Documents perused by the Committee

The following documents were, inter alia, placed before the Committee:

- (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, an independent merchant banker registered with SEBI with registration number INM000003606 providing its opinion on the fairness of the share exchange ratio proposed in the Valuation Report ("**Fairness Opinion**").
- (d) Report of Audit Committee of the Company dated November 5, 2022, recommending the Scheme.

## 3. Salient Features of the Proposed Scheme

- (a) 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 the Transferor Company (other than KFIL) for every 100 fully paid-up equity shares of Rs. 5/- each held by such shareholders of the Transferor Company;
- (b) dissolution without winding up of the Transferor Company;



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- (c) transfer of the authorized Share Capital from the 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;
- (e) the Appointed Date will be April 1, 2023; and
- (f) various other matters consequential or integrally connected therewith.

#### 4. Proceedings of the Meeting

The Committee then discussed and deliberated as to whether, the draft Scheme as presented was complying with the extant laws and regulations. Specifically, they were keen to know if the merger proposal complies with requirements of merger of two listed entities.

#### Valuation Basis

- (a) The Committee also 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 the 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 the purpose of determining the relative valuation of the equity shares of the Transferee Company and ISMT, Mr. Amit Jain, Independent Registered Valuer has carried out the valuation analysis by placing reliance on the Valuation Standards issued by the Institute of Chartered Accountants of India and thereafter by assigning appropriate weightage to the applicable internationally accepted methodologies.
- (c) The Market Approach (Market Price Method & Comparable Company Method for the Transferor & Transferee Company) has been used to arrive at valuation of the companies under discussion.

Basis the discussions and deliberations in the meeting of the Committee of Independent Directors, a pointed query of one of the Committee members arose, as to whether the Market Price Method can be adopted as was the case in few mergers involving major companies where swap ratio was very close to the market price on the last day. The Committee noted the views of the Valuer and Merchant Banker 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'.

#### 5. Scheme not Detrimental to the Shareholders of the Company

- 5.1 The Committee discussed the rationale and expected benefits of the Scheme as had been presented to it. Considering the Valuation Report, Fairness Opinion and other relevant documents, it is observed that the merger will result in synergies and create a compelling value proposition for the stakeholders.
- 5.2 The Committee deliberated and discussed, and basis the aforesaid explanations/ advice rendered, was of the view that there will be strong synergies in the proposed merger, the employees in general will be benefitted, and the Company will be well positioned to create a better impact both in business and financial terms.
- 5.3 Therefore, considering the above factors and basis the various information and explanations provided by the Company on the merger, the share swap ratio, Valuation Report, the Fairness opinion and other documents presented, the Committee is of the unanimous view that the proposed Scheme is not detrimental to the Shareholders of the Company.



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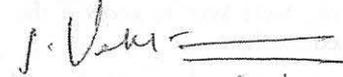
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## 6. Recommendation of the Committee

Basis the above and after due deliberations, discussions and taking into consideration the Scheme, its rationale, synergies of business and impact on the Shareholders of the Company, in particular the fact that the Scheme is not detrimental to the shareholders of the Company, the Committee unanimously recommended the Scheme for approval of the Board of Directors of the Company.

For and on behalf of the  
Committee of Independent Directors of ISMT Limited



S Venkataramani  
Chairman – Committee of Independent Directors  
Date: November 5, 2022  
Place: Pune



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