

**Report of the Audit Committee of Kirloskar Ferrous Industries Limited ('KFIL / Company / Transferee Company') recommending the draft Scheme of Arrangement and Merger of ISMT Limited ('ISMT / Transferor Company') with the Company**

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Members present :

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| 1. Mr. M. V. Kotwal  | Chairman of the Committee (Independent Director) |
| 2. Mr. A. N. Alawani | Member (Non Independent Director)                |
| 3. Mr. V. M. Varma   | Member (Independent Director)                    |
| 4. Mr. P. K. Vohra   | Member (Independent Director)                    |

Mr. S. Venkataramani, Independent Director is also a Member of the Audit Committee. However, since he is also an Independent Director of ISMT Limited, he took leave from the meeting for this agenda item to be considered by the Audit Committee.

**1. Background**

1.1 A meeting of the Audit Committee ("**Committee**") of the Company was held on 5 November 2022 to consider and recommend the draft Scheme of Arrangement and Merger of ISMT with KFIL and their respective shareholders and creditors ("**Scheme**") under provisions of Sections 230 to 232 and other applicable provisions of the Companies Act, 2013, ("**the Act**") and rules thereof.

1.2 The draft Scheme and related documents placed before the Committee provide *inter-alia* the following :

- Merger of the Transferor Company, including its entire business and undertaking with and into the Transferee Company and the consequent issue of 17 fully paid-up equity shares ("**New Equity Shares**") of ₹ 5 each of the Transferee Company to the shareholders of the Transferor Company (other than the Transferee Company) for every 100 fully paid-up equity shares of ₹ 5 each held by such shareholders of the Transferor Company;
- Dissolution without winding up of the Transferor Company;
- Transfer of the authorized share capital from the Transferor Company to the Transferee Company and the consequent amendment to the Memorandum of Association of the Transferee Company;
- Listing of the New Equity Shares of the Company on BSE Limited; and
- The Appointed Date will be 1 April 2023.

The Scheme shall be filed with the National Company Law Tribunal, Mumbai Bench ("**NCLT**") under provisions of Sections 230 to 232 and other applicable provisions of the Act and has been drawn in compliance with Section 2(1B) and other applicable provisions of the Income Tax Act, 1961 and other applicable laws, including the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with the SEBI Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated 23 November 2021 ("**SEBI Master Circular**").



- 1.3 In terms of the SEBI Master 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.

## 2. Documents Perused by the Committee

The Committee considered the following documents during the meeting:

(a) The Scheme

- (b) Valuation Report dated 5 November 2022 issued by M/s. BDO Valuation Advisory LLP the Independent Registered Valuer, having registration number [IBBI Registration Number IBBI/RV-E/02/2019/103] ("**Valuation Report**") providing the share exchange ratio as under :

"Issue of 17 fully paid-up equity shares of ₹ 5 of the Transferee Company to the shareholders of the Transferor Company for every 100 fully paid-up equity shares of ₹ 5 held by such shareholders of the Transferor Company."

- (c) Fairness Opinion dated 5 November 2022 issued by M/s. JM Financial Limited, an independent Merchant Banker registered with the Securities and Exchange Board of India ("**SEBI**") [Registration Number INM000010361] providing an opinion on the fairness of the share exchange ratio proposed in the Valuation Report ("**Fairness Opinion**").

## 3. Need for the Arrangement and Rationale of 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 and 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.
- 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.

#### **4. Salient Features of the Proposed Scheme**

- Merger of the Transferor Company, including its entire business and undertaking with and into the Transferee Company and the consequent issue of 17 fully paid-up equity shares ("New Equity Shares") of ₹ 5 each of the Transferee Company to the shareholders of the Transferor Company (other than the Transferee Company) for every 100 fully paid-up equity shares of ₹ 5 each held by such shareholders of the Transferor Company;
- Dissolution without winding up of the Transferor Company;
- Transfer of the authorized share capital from the Transferor Company to the Transferee Company and the consequent amendment to the Memorandum of Association of the Transferee Company;
- Listing of the New Equity Shares of the Company on BSE Limited;
- The Appointed Date will be 1 April 2023 and
- 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, the Fairness Opinion and other related documents were placed before the Committee.

Considering the aforesaid reports, the Committee noted that the shareholders of the Transferor Company would be issued fully paid-up equity shares of the Transferee Company in accordance with the share exchange ratio specified in the Valuation Report and the Fairness Opinion and that there would be no adverse effect on the shareholders of the Company as a consequence.



**7. Cost Benefit Analysis of the Scheme**

Merging the operations of both 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 growth. 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 in their respective areas of business and the proposed merger would enable exploring cross-selling opportunities.

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. Recommendation of the Audit Committee**

Having considered the Scheme and its rationale and its benefits, the Valuation Report, the 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 before it, the Committee unanimously recommends the Scheme for consideration by the Board of Directors of the Company.

For and on behalf of the Audit Committee of  
Kirloskar Ferrous Industries Limited



M. V. Kotwal  
Chairman of Audit Committee  
(DIN : 00001744)



Place : Pune  
Date : 5 November 2022