

**REPORT OF THE AUDIT COMMITTEE OF ELECTROSTEEL CASTINGS LIMITED RECOMMENDING
AMALGAMATION OF SRIKALAHASTHI PIPES LIMITED WITH ELECTROSTEEL CASTINGS LIMITED**

1. Background

- 1.1. A meeting of the Audit Committee of Electrosteel Castings Limited ("**ECL**" or "**the Company**" or "**Transferee Company**") was held on 5 October, 2020 to consider and, if thought fit, recommend the proposed Scheme of Amalgamation of Srikalahasthi Pipes Limited ("**SPL**" or "**Transferor Company**") with the Company and their respective shareholders and creditors on a going concern basis under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 ("**the Act**") read with rules framed thereunder, ("**the Scheme**"). The Scheme, inter-alia, provides for amalgamation of SPL with ECL and issue of equity shares as a consideration for Amalgamation by ECL to the shareholders of SPL. The appointed date for amalgamation under the Scheme is 1 October, 2020 ("**Appointed Date**").
- 1.2. As on date, SPL and the Company are under the control of common promoter group. The Company, along with its promoter group of companies, is in a position to and do exercise control over SPL.
- 1.3. The Scheme of Amalgamation is in compliance with Section 2(1B) of the Income-tax Act, 1961 and the SEBI Circular number CFD/DIL3/CIR/2017/21 dated March 10, 2017, as amended from time to time (referred to as "**SEBI Circular**").
- 1.4. While deliberating on the Scheme, the Audit Committee has considered, inter-alia, and has taken on record, the following documents:
 - (a) the draft Scheme;
 - (b) the Report dated 3 October, 2020 issued (i) jointly by M/s. Sharp & Tannan, Independent Chartered Accountants and R V Shah & Associates, Independent Chartered Accountants, and (ii) Ms. Rashmi Shah, FCA, Registered Valuer ("**Valuer**") describing inter-alia, the methodology adopted by them in arriving at the share exchange ratio ("**Share Exchange Ratio**") for the proposed Amalgamation ("**Valuation Report**");
 - (c) Fairness Opinion dated 3 October, 2020 issued by Finshore Management Services Limited, Independent SEBI Registered Merchant Banker, providing fairness opinion on the Fair Share Exchange Ratio ("**Fairness Opinion**"); and
 - (d) Certificate on Accounting Treatment mentioned in Scheme dated 5 October, 2020 submitted by M/s. Singhi & Co., Chartered Accountants, Statutory Auditors of the Company ("**Auditor's Certificate**");



2. Proposed Scheme of Amalgamation

2.1. The Audit Committee noted the rationale and the benefits of the Scheme of Amalgamation, which, *inter-alia*, were as follows:

- (i) The Transferor Company and Transferee Company are under the control of common promoter group. The Transferee Company along with its promoter group of companies are in a position to and do exercise control over the Transferor Company. The Transferor Company and Transferee Company are engaged in the same line of business, i.e., manufacture and sale of ductile iron pipes and both have common economic objective and strategic goals. It would be advantageous to combine the activities and operations in a single company leading to strong capability in effectively meeting future challenges of competitive business environment.
- (ii) The Amalgamation (as defined hereunder) will enable the companies (as defined hereinafter) to streamline their business activities into a single combined entity, thereby resulting in economies of scale and avoidance of undue duplication in work, reduction in common expenditure otherwise incurred by the two entities within common group, better and more productive utilization of financial, human and other resource and enhancement of overall business efficiency.
- (iii) The Amalgamation will result in significant reduction in multiplicity of legal and regulatory compliances which at present is required to be made separately by the Companies.
- (iv) The Amalgamation will result in simplification of the group structure and management structure with only one listed company in group leading to better administration and reduction in administrative and other costs from more focused operational efforts, rationalization, standardization and simplification of business processes.
- (v) The Amalgamation will enable the combined entity to leverage their consolidated resources to: (a) increase production capacities; (b) undertake research and development initiatives to improve manufacturing processes and final product; (c) serve the needs of a larger customer base leading to overall business domestically as well as overseas, (d) improved alignment of debt repayments with cash flow, and (e) improved credit rating.
- (vi) The synergies that exist between the two companies in terms of services and resources can be put to the best advantage of all stakeholders.
- (vii) The Scheme is envisaged to be in the best interests of the shareholders, employees and the creditors of the Transferor Company and the Transferee Company.

Thus, the Scheme of Amalgamation, as envisaged, would enable seamless access to strong business relationships, closer and better focused attention being given to the businesses which would get integrated, aligned and streamlined, leading to achievement of their full business and growth potential.

The term "Amalgamation" means amalgamation of the Transferor Company with the Transferee Company, on a going concern basis in accordance with Sections 230 to 232 of the Act and Section 2(1B) of the Income-Tax Act, 1961, in terms of Chapter 2 of the Scheme.



- 2.2. The Audit Committee reviewed the Valuation Report issued (i) jointly by M/s. Sharp & Tannan, Independent Chartered Accountants and R V Shah & Associates, Independent Chartered Accountants, and (ii) Ms. Rashmi Shah, Registered Valuer, and tabled at the Meeting. The Audit Committee noted that the Valuation Report recommended the Share Exchange Ratio as under:

ECL shall issue its equity shares to the shareholders of SPL, in accordance with a Share Exchange ratio of 59:10, such that upon this Scheme becoming effective, the shareholders of SPL (except ECL) shall be entitled to receive 59 fully paid up equity shares of Re. 1/- each of ECL for every 10 equity shares in SPL of Rs. 10/- each.

- 2.3. Further, the Audit Committee noted that a Fairness Opinion from Finshore Management Services Limited, an Independent SEBI Registered Merchant Banker, has confirmed that the Share Exchange Ratio as per the Valuation Report issued (i) jointly by M/s. Sharp & Tannan, Independent Chartered Accountants and R V Shah & Associates, Independent Chartered Accountants, and (ii) Ms. Rashmi Shah, Registered Valuer, is fair to the shareholders of the Company.
- 2.4. The new equity shares of the Company to be issued by the Company would be listed on the Stock Exchanges in India with nationwide terminals, viz., BSE Limited and National Stock Exchange of India Limited, in terms of and in compliance with the applicable SEBI Regulations.

3. Recommendation of the Audit Committee

The Audit Committee, after taking into consideration the provisions, rationale and benefits of the Scheme, along with the Valuation Report, the Fairness Opinion and the Auditor's Certificate, recommends the draft Scheme to the Board of Directors of the Company for approval and for favorable consideration by the Stock Exchange(s) and Securities and Exchange Board of India, National Company Law Tribunal and any other regulatory authority as may be required.

By Order of the Audit Committee
Electrosteel Castings Limited



Indranil Mitra

Company Secretary and Secretary to the Audit Committee

Date: 5 October, 2020

Place: Kolkata