



KESORAM INDUSTRIES LIMITED

REPORT ON RECOMMENDATIONS OF THE AUDIT COMMITTEE OF M/S. KESORAM INDUSTRIES LIMITED ON THE DRAFT SCHEME OF ARRANGEMENT BETWEEN KESORAM INDUSTRIES LIMITED AND CYGNET INDUSTRIES LIMITED AND THEIR RESPECTIVE MEMBERS

MEMBERS PRESENT

1. Mr. Kashi Prasad Khandelwal (Chairman)
2. Mr. Sudip Banerjee
3. Mr. Lee Seow Chuan
4. Mrs. Jikyeong Kang

By Attendance: Mr. Raghuram Nath, Secretary to the Audit Committee

The quorum was present at the Meeting and remained till the conclusion of the Meeting.

1. **Background**

- 1.1. A Meeting of the Audit Committee of Kesoram Industries Limited ("**Company**" / "**Demerged Company**") was held on 12th May 2022 to recommend the proposed Scheme of Arrangement between Kesoram Industries Limited and Cygnet Industries Limited ("**Resulting Company**") and their respective Members with effect from the Appointed Date, viz. 1st April, 2022 under Sections 230 to 232 of the Companies Act, 2013.
- 1.2. This Report of the Audit Committee is made in order to comply with the requirements of SEBI Circular Master Circular no. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021 ("**SEBI Circular**").
- 1.3. The following documents were placed before the Audit Committee:
 - the draft Scheme, duly initialed by the Chairman of the Meeting for the purpose of identification;
 - the Share Entitlement Ratio Report dated 11th May 2022 ("**Share Entitlement Ratio Report**") prepared by Messrs. RBSA Valuation Advisors LLP, Registered Valuers; and
 - Fairness Opinion dated 11th May 2022 prepared by Messrs. Gretex Corporate Services Limited, a SEBI Registered Merchant Banker, providing a Fairness Opinion on the Share Entitlement Ratio Report ("**Fairness Opinion**").

2. **Proposed Scheme of Arrangement**

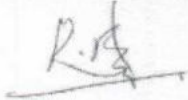
- 2.1. The Audit Committee noted that the Scheme envisages demerger of the Rayon (including the brand name "Kesoram Rayon"), Transparent Paper and Chemicals Business (including the erstwhile Hindustan Heavy Chemical business) on a going concern basis.
- 2.2. The Audit Committee noted the rationale and the benefits of the Scheme, which, *inter-alia*, were as follows:
- 2.2.1 The businesses presently being carried out by the Demerged Company, directly or indirectly through its wholly owned subsidiary, comprise of cement, rayon, transparent paper and chemicals. The business of manufacture and sale of chemicals being carried directly by the Demerged Company is presently under suspension. The businesses of cement and rayon, transparent paper and chemicals have different requirements and are operated independent of each other as separate business verticals.
- 2.2.2 The requirements of the business of cement and other businesses are divergent in nature, including in terms of capital, operations, knowledge, nature of risks, competition and strategies. The said businesses require divergent set of investors and strategic partners. The depth, scale of operations and growth potential of the said businesses require separate and independent management set up and focus for proper administration and supervision. Moreover, the competitive dynamics of these businesses are also different.
- 2.2.3 Therefore, in order to unlock the potential value of each of the said businesses of cement and rayon, transparent paper and chemicals, it is proposed through this Scheme to completely segregate the cement business and rayon, transparent paper and chemicals by having independent control and management set up. The proposed demerger will enable the Demerged Company to focus its time and attention on cement business and enable the Resulting Company to look after the rayon, transparent paper and chemicals business with independent management and set up enabling vertical growth of all the businesses.
- 2.2.4 The transfer of chemicals business of the Demerged Company to the Resulting Company will enable the chemical business to be revived and more effectively administered, explored and managed by the Resulting Company with undivided care and attention leading to its growth and development.
- 2.2.5 The separation of the Rayon, Transparent Paper and Chemicals Business, by way of this Scheme from the Demerged Company would lead to significant benefits for both businesses including:
- (a) enable a dedicated management focus and to accelerate growth of the Rayon, Transparent Paper and Chemicals Business and Cement Business and unlocking significant value for the shareholders of the Demerged Company;
 - (b) access to varied sources of funds for the rapid growth of each of the said businesses; and
 - (c) rationalization of business structure.
- 2.2.6 The Resulting Company will be able to expand and diversify its business by taking over the rayon, transparent paper and chemicals business from Demerged Company.

- 2.2.7 With a view to achieve the aforesaid growth potential, the Demerged Company proposes to re-organise and segregate, by way of the Scheme, its business, undertaking and investments in the Rayon, Transparent Paper and Chemicals Business.
- 2.2.8 The Scheme does not have any adverse effect on either the shareholders or the employees or the creditors of the Demerged Company.
- 2.3. The Committee also note that the Scheme will lead to synergic growth of the said businesses if undertaken independently as the Resulting Company will be able to expand and diversify its business by taking over the rayon, transparent paper and chemicals business from Demerged Company and the Demerged Company can concentrate on its core business of cement leading to its growth and development.
- 2.4. The Audit Committee reviewed the Share Entitlement Ration Report submitted by RBSA Valuation Advisors LLP, Registered Valuers and tabled at the Meeting and noted that such Report recommended Valuation for the Scheme, as follows:
- "Considering, the aforementioned and in particular that the eligible shareholders of KIL are and will, upon demerger, be ultimate economic beneficial owners of CIL inter-se in the same proportion as they hold in KIL, the Share Entitlement Ratio of 1 (one) fully paid up equity share of face value of INR 10 each of CIL for every 1 (one) fully paid up equity share of the face value of INR 10 each in KIL, as proposed by the Management, is fair."*
- 2.5. Further, a Fairness Opinion from Gretex Corporate Services Limited, a Category I SEBI registered Merchant Banker has confirmed the Share Entitlement Ratio Report as provided by the Registered Valuer and have certified as under:
- "In light of the foregoing and subject to the limitations as detailed hereinabove, we as a Merchant Banker hereby certify that, in our opinion the consideration for demerger worked out by the independent registered valuer is fair and reasonable and the interest of shareholders of Kesoram Industries Limited is not prejudicially affected."*
- 2.6. The Committee also noted that the Scheme is beneficial to the shareholders and other stakeholders of the Company as the Company can concentrate on its core business of cement with undivided care and attention leading to its optimum growth and improve its rating and will attract investment.
- 2.7. The proposed demerger will enable the Demerged Company to attract investments at a lower cost resulting in financial efficiency and for meeting future capital expansion and growth of the cement business. Thus, the proposed demerger will pave way for efficiency in costs of the Demerged Company to its advantage. The scheme will unlock values of each of the businesses presently being carried on the Demerged Company, whether directly or through its subsidiary and will result in shareholder value maximization. The scheme shall not be any manner be prejudicial to the interest of the shareholders and other stake holders.

3. **Recommendation of the Audit Committee**

The Audit Committee, upon discussion and after due consideration of all the terms of the draft Scheme and its benefits, recommends the draft Scheme to the Board of Directors of the Company for approval and for consideration by the Stock Exchange(s) and Securities and Exchange Board of India.

**Certified to be True Copy
For Kesoram Industries Limited**



Raghuram Nath
Company Secretary

Date: 12th May, 2022
Place: Kolkata