



REPORT ADOPTED BY THE AUDIT COMMITTEE OF TATA METALIKS LIMITED AT ITS MEETING HELD ON FRIDAY, NOVEMBER 13, 2020, IN RELATION TO THE PROPOSED SCHEME OF AMALGAMATION OF TATA METALIKS LIMITED WITH TATA STEEL LONG PRODUCTS LIMITED (FORMERLY KNOWN AS TATA SPONGE IRON LIMITED) AND THEIR RESPECTIVE SHAREHOLDERS

1. Background:

- 1.1 The Audit Committee at its meeting held on November 13, 2020 was requested to consider, and if thought fit, recommend to the board of directors ("**Board**") of Tata Metaliks Limited ("**Transferor Company / TML/ Company**"), the draft of the proposed scheme of amalgamation, for amalgamation and consolidation of the businesses of the Company into and with Tata Steel Long Products Limited, (formerly known as Tata Sponge Iron Limited) ("**Transferee Company / TSLP**") (collectively, the **Amalgamating Companies**) and their respective shareholders (hereinafter referred to as the '**Scheme**'), to be implemented under Sections 230 to 232 and other applicable provisions, if any, of the Companies Act, 2013 ('**Companies Act**') read with the rules made thereunder (including any statutory modification(s) or re-enactment(s) or other amendments thereof for the time being in force), Section 2(1B) read with other applicable provisions of the Income-tax Act, 1961 (as amended) ("**IT Act**"), and other applicable laws including the circular issued by Securities and Exchange Board of India ("**SEBI**"), bearing Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 (as amended) on Schemes of Arrangement by Listed Entities and Relaxation under sub-rule (7) of rule 19 of the Securities Contracts (Regulation) Rules, 1957 ('**SEBI Scheme Circular**').
- 1.2 The Scheme, *inter alia*, provides for the amalgamation of the Company into and with the Transferee Company in consideration of issue of fully paid-up equity shares by the Transferee Company to the Eligible Members (*as defined in the Scheme*) of the Company; the consequent dissolution of the Company without winding up and various other matters consequential or integrally connected therewith ("**Amalgamation**"), with effect from opening of business hours on April 1, 2020, or such other date as the National Company Law Tribunal(s) ("**NCLT**") may direct/allow ('**Appointed Date**').
- 1.3 The Scheme, which will be presented before the relevant benches of the Hon'ble NCLT having territorial jurisdiction over the States where the registered offices of the Amalgamating Companies are situated under Sections 230 to 232 and other applicable provisions of the Companies Act, the rules and regulations made thereunder (including any statutory modification(s) or re-enactment(s) or amendments thereof for the time being in force), has been drawn up to be in compliance with Section 2(1B) and other applicable provisions of the IT Act and other applicable laws including SEBI Regulations read with the SEBI Scheme Circular.

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1.4 This report of the Audit Committee is made to comply with the requirements of the SEBI Scheme Circular.

2. Documents perused by the Audit Committee:

2.1 While deliberating on the Scheme, the Audit Committee, *inter-alia*, considered and took on record the following documents:

- (a) A draft of the proposed Scheme;
- (b) Valuation report dated November 13, 2020 (the '**Valuation Report 1**'), issued by Ms. Rashmi Shah, an Independent Chartered Accountant and a Registered Valuer, (the "**Valuer 1**"), and valuation report dated November 13, 2020 (the '**Valuation Report 2**'), issued by Deloitte Haskins & Sells, a SEBI Registered Valuer (the "**Valuer 2**"), (hereinafter the Valuer 1 and Valuer 2 being collectively called the "**Valuers**" and the Valuation Report 1 and the Valuation Report 2 being collectively called the "**Valuation Reports**"), who in their Valuation Reports, have recommended the following share exchange ratio ('**Share Exchange Ratio**')

The Share Exchange Ratio of 12:10, that is, 12 (twelve) fully paid up equity shares of ₹10/- each of the Transferee Company shall be issued and allotted for every 10 (ten) fully paid up equity shares of ₹10/- each held by the Eligible Members in the Transferor Company

- (c) Fairness opinion dated November 13, 2020, issued by V B Desai Financial Services, a SEBI Registered Category 1 Merchant Banker ('**Fairness Opinion**'), providing the fairness opinion on the Share Exchange Ratio recommended in the Valuation Reports;
- (d) Draft of the Auditor's certificate to be issued by the statutory auditors of the Company, i.e. Price Waterhouse & Co Chartered Accountants LLP ('**Auditor's Certificate**'), to the effect that the Scheme is in compliance with applicable Accounting Standards specified by the Central Government in Section 133 of the Companies Act; and
- (e) Other presentations, reports, documents and information made to/ furnished before the Audit Committee pertaining to the draft Scheme.

3. Rationale of the Proposed Scheme:

3.1 The Audit Committee noted the rationale of the Scheme, which *inter-alia* is as follows:

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- a) The Amalgamating Companies are engaged in the business of manufacture and sale of iron, iron products, long products and steel products. The amalgamation will ensure creation of a combined entity, hosting all value added long products under the Transferee Company, as the holding entity of the cluster, thereby resulting in on-time supplies, efficiency of management and maximizing value for the shareholders. Further, such restructuring will lead to simplification of group structure by eliminating multiple companies in similar business.
- b) The Amalgamating Companies believe that the financial, managerial and technical resources, personnel, capabilities, skills, expertise and technologies of each of the Amalgamating Companies pooled in the merged entity, will lead to optimum use of infrastructure, cost reduction and efficiencies, productivity gains and logistic advantages and reduction of administrative and operational costs, thereby significantly contributing to the future growth and maximising shareholder value.
- c) The proposed amalgamation would be in the best interest of the Amalgamating Companies and their respective shareholders, employees, creditors, customers and other stakeholders as the proposed amalgamation will yield advantages as set out, *inter alia*, below:
- (i) realising benefits of greater synergies between their businesses, yield beneficial results and pool financial resources as well as managerial, technical, distribution and marketing resources of each other in the interest of maximizing value to their shareholders and the other stakeholders;
 - (ii) integrated value chain to enhance degree of vertical integration in the long products segment;
 - (iii) greater efficiency in cash and debt management and unfettered access to cash flow generated by the combined business, which can be deployed more efficiently, to maximize shareholders value and better debt management;
 - (iv) The Transferor Company, having a debt-free with stronger balance sheet alongwith a profitable business will
 - (a) strengthen the financial of the merged entity, enabling the combined entity to source external funds for future expansion and business requirements;
 - (b) enhance the combined entity's risk-taking capability to bid for large value project contracts
 - (v) pooling of resources, creating better synergies, optimal utilisation of resources, centralization of inventory and greater economies of scale, such as

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- (a) the unutilized facilities of the Transferor Company's Redi unit in Maharashtra will have better opportunity for being economically utilized by the Transferee Company to optimize its resources and better meet its future business requirements or monetized;
 - (b) The Transferor Company's strong presence in the DI Pipes segment will further augment the value-added Product Portfolio basket of the Long products business segments undertaken by the Transferee Company;
 - (c) Common production process till the hot metal stage will lead to opportunities for better operational efficiencies;
 - (d) Combined sourcing of raw materials (e.g., coal, iron ore etc.) and other procurements with centralized inventory management will lead to better economies of scale, increased synergies and operational efficiencies;
 - (e) sharing of best practices and cross-functional learnings;
 - (f) leverage of resources for aggressive growth in its product segment;
 - (g) augmenting the infrastructural capability of the Transferee Company to effectively meet future challenges;
 - (h) Utilize pan India distribution and marketing network of the combined entity to sell its value-added products;
 - (i) Clubbing of shipments and combining of stockyards will facilitate optimization of logistics movements and freight costs.
- (vi) the customers' need would be addressed
- (a) by providing them uniform products and service experience;
 - (b) owing to dedicated stock yards and supply chain efficiencies across multiple locations in India;
- (vii) simplification of management structure, elimination of duplication and multiplicity of compliance requirements, rationalization of administrative expenses, better administration and cost reduction (including reduction in administrative and other common costs);
- (viii) further expanding the business of the Transferee Company into growing markets;

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- (ix) efficient tax planning at the combined entity level;
 - (x) adoption of improved safety, environment and sustainability practices owing to a centralized committee at combined level to provide focused approach towards safety, environment and sustainability practices resulting in overall improvement; and
 - (xi) create value for the stakeholders including the respective shareholders, customers, lenders and employees.
- 3.2 The Valuers then made a presentation to the Audit Committee explaining the methodology adopted in arriving at the Share Exchange Ratio in respect of the Scheme. Upon completion of the presentations, the Share Exchange Ratio, in respect of the shares to be allotted pursuant to the Scheme, was read out to the Audit Committee.

4. Salient Features of the Proposed Scheme:

4.1 The Audit Committee noted the salient features of the Scheme, which *inter-alia* are as under:

- (a) The Scheme provides for:
 - (i) amalgamation and consolidation of the businesses of the Company into and with the Transferee Company in accordance with Section 2(1B) and other provisions of the IT Act and Part III of the Scheme;
 - (ii) issue and allotment of fully paid up New Shares (*as defined in the Scheme*) to the Eligible members of the Transferor Company as on the Record Date (*as defined in the Scheme*) in accordance with Part III of the Scheme;
 - (iii) transfer of the authorized share capital of the Company to the Transferee Company as provided in Part III of the Scheme, and consequential increase in the authorized share capital of the Transferee Company as provided in Part III of the Scheme; and
 - (iv) dissolution of the Company without winding up.

pursuant to the provisions of Sections 230 to 232 and other applicable provisions of the Companies Act read with the rules made thereunder (including any statutory modification(s) or re-enactment(s) or amendments thereof for the time being in force), and the applicable provisions of the IT Act, including Section 2(1B) thereof and other applicable laws.

- (b) Pursuant to the sanction of the Scheme by the relevant benches of the NCLT and

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satisfaction of the other conditions specified in the Scheme, the Scheme shall become effective from the Appointed Date, i.e., opening of business hours on April 1, 2020, or such other date as the NCLT(s) may direct/allow.

- (c) With effect from the Appointed Date, the entire undertaking of Transferor Company shall stand transferred to and vested in and/or be deemed to have been and stand transferred to and vested in the Transferee Company to become the undertaking of the Transferee Company as a going concern, in the manner provided for in the Scheme, in accordance with Sections 230 to 232 of the Companies Act, the IT Act and other applicable laws.
- (d) In consideration of the Amalgamation, the Transferee Company shall issue and allot fully paid up equity shares to the Eligible Members of the Company, in the manner as stipulated in Part III of the Scheme as per the following share exchange ratio:

“12 (twelve) fully paid up equity shares of ₹10/- each of the Transferee Company shall be issued and allotted for every 10 (ten) fully paid up equity shares of ₹10/- each held in the Transferor Company”
- (e) On the Effective Date (*as defined in the Scheme*), the Transferor Company shall stand dissolved without being wound-up and without any further act or deed.
- (f) Equity shares issued by the Transferee Company to the Eligible Members of the Company, pursuant to the Scheme would be listed on BSE Limited and the National Stock Exchange of India Limited (collectively, the “**Stock Exchanges**”).
- (g) Each of the Amalgamating Companies shall follow the method of accounting as per applicable accounting principles as prescribed under the Companies (Indian Accounting standards) Rules, 2015 (Ind AS) as notified under Section 133 of the Companies Act, as may be amended from time to time and relevant clarifications issued by Institute of Chartered Accountants of India, to the extent.
- (h) The Scheme is required to be approved by the requisite majority in number and value of the respective members and creditors, of each of the Amalgamating Companies as may be directed by the NCLT(s), subject to any dispensation that may be granted by the relevant benches of the NCLT.
- (i) The Scheme shall become effective from the Appointed Date but shall be operative from the Effective Date.

5. Recommendations of the Audit Committee:

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- 5.1 In light of the above, the Audit Committee, after taking into consideration (i) the Valuation Reports and (ii) the Fairness Opinion along with (iii) Other relevant documents placed before the Committee pursuant to the draft Scheme, recommends the draft Scheme in its present form for favorable consideration by the Board of Directors of the Company, the Stock Exchanges and SEBI.

**For and on behalf of the Audit Committee
of Tata Metaliks Limited**

**Krishnava Dutt
Chairman of Audit Committee
DIN: 02792753**

Date: November 13, 2020

Place: Mumbai

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