

Report of the Committee of Independent Directors 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

This Report is prepared, considered and approved by the Committee of Independent Directors ('Committee') of the Company pursuant to its meeting held on 5 November 2022.

Following Independent Directors were present at the meeting :

1. Mr. M. V. Kotwal
2. Mr. V. M. Varma
3. Mr. Y. S. Bhave
4. Mr. P. K. Vohra

Mr. S. Venkataramani, Independent Director is also a Member of the Committee of Independent Directors. However, since he is also an Independent Director of ISMT Limited, he took leave from this meeting.

Mr. M. V. Kotwal, Chairman of the Committee took the chair and conducted the proceedings of the meeting.

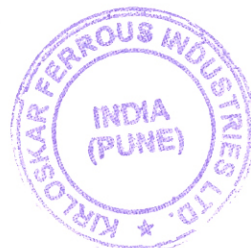
1. Background

- 1.1 A meeting of the Committee of Independent Directors ("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 report of the Committee is made pursuant to the requirements of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with the SEBI Master Circular on scheme of arrangement of listed entities.

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”); and
- (d) Report of the Audit Committee of the Company dated 5 November 2022 recommending the Scheme.

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

- a. the merger 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 ₹ 5/- each of KFIL to the shareholders of the Transferor Company (other than KFIL) for every 100 fully paid-up equity shares of ₹ 5/- each held by such shareholders of the Transferor Company;
- b. dissolution without winding up of the Transferor Company;
- 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 1 April 2023 and
- f. various other matters consequential or integrally connected therewith.

5. Proceedings of the Meeting

- 5.1. The Committee then discussed and noted the draft Scheme (including the salient features) noted at paragraph 4 above.
- 5.2. The committee also noted that 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").
- 5.3. Thereafter, the Committee deliberated on whether the draft Scheme as presented complies with the extant laws and regulations. Specifically, they were keen to know if the merger proposal complies with requirements of merger of one listed entity with another entity.
- 5.4. Valuation Basis :
 - The Committee also focused on the Valuation Report to see if it is reasonable and satisfactory. The Committee noted that the Company will issue and allot to each shareholder of the Transferor Company 17 fully paid-up equity shares of ₹ 5 each of the Company for every 100 fully paid-up equity shares of ₹ 5 each of the Transferor Company.
 - The Committee noted that for the purpose of determining the relative valuation of the equity shares of the Transferee Company and the Company, M/s. BDO Valuation Advisory LLP has carried out the valuation analysis by placing reliance of ICAI Valuation Standards issued by the Institute of Chartered Accountant of India and thereafter by assigning appropriate weightage to the applicable internationally accepted methodologies.
 - The Market Price Method and the Comparable Companies Multiple Method have been used for the Transferee Company and the Transferor Company to arrive at the valuation of the companies under discussion.



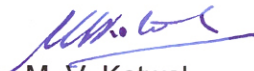
6. Fairness of Scheme to Shareholders of the Company

- 6.1 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 was observed that this merger will result in synergies and create a compelling value proposition for the stakeholders.
- 6.2 The Committee discussed and, basis the aforesaid and explanations / advice rendered, formed the view that there will be strong synergies in the proposed merger, employees in general will be benefitted, the Company will be well positioned to create a better impact both in business and financial terms.
- 6.3 Therefore, considering the above and basis the various information and explanations provided on the proposed merger, the share swap ratio, the Valuation Report, the Fairness opinions and other documents presented to it, the Committee is of the unanimous view that the proposed Scheme is fair and is not detrimental to the interest of shareholders of the Company.

7. Recommendation of the Committee

Basis the above and after due deliberation and taking into consideration the Scheme, its rationale, synergies of business and its 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 recommends the Scheme for consideration by the Board of Directors of the Company.

For and on behalf of the Committee of Independent Directors of
Kirloskar Ferrous Industries Limited



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



Place : Pune
Date : 5 November 2022