

**Mukand Ltd.**

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**REPORT ON RECOMMENDATION OF THE AUDIT COMMITTEE OF MUKAND LIMITED  
ON THE SCHEME OF ARRANGEMENT AND AMALGAMATION AMONGST MUKAND  
LIMITED, MUKAND VIJAYANAGAR STEEL LIMITED AND MUKAND ALLOY STEELS  
PRIVATE LIMITED**

**Members present:**

Mr. Dhirajlal S. Mehta – Chairman  
Mr. N. C. Sharma – Member  
Mr. Prakash V. Mehta – Member

**In Attendance:**

Mr. K. J. Mallya – Company Secretary

**Invitees:**

Mr. Niraj Bajaj – Chairman & Managing Director  
Mr. Rajesh V. Shah – Co-Chairman & Managing Director (CCMD)  
Mr. Suketu V. Shah – Joint Managing Director (JMD),  
Mr. Narendra J. Shah – Director,  
Mr. Vinod S. Shah – Director,  
Mr. Amit Yadav - Director,  
Shri S.B. Jhaveri – Chief Financial Officer  
Shri U. V. Joshi, Controller of Accounts

**1. Preamble and Background**

- 1.1. A draft scheme of arrangement and amalgamation amongst Mukand Limited (“**Mukand**” or “**Company**”), Mukand Vijayanagar Steel Limited (“**MVSL**”) and Mukand Alloy Steels Private Limited (“**MASPL**”) and their respective shareholders and creditors under Sections 230 to 232 and Section 52 of the Companies Act, 2013, and other applicable provisions of the Companies Act, 2013, as applicable (“**Scheme**”), was placed before the Audit Committee of the Board of Directors of the Company (“**Audit Committee**”), at their meeting held on 12<sup>th</sup> January, 2017, for consideration and for providing its recommendation on the Scheme to the Board of Directors of the Company involving the following:
- Slump sale of alloy steel rolling and finishing business of the Company except for the Residual Undertaking of the Transferor Company as set out in the Scheme (“**Transferred Undertaking**”) to MVSL on a going concern basis (“**Slump Sale**”);
  - Amalgamation of MVSL (post Slump Sale) with MASPL in accordance with Section 2(1B) of the Income Tax Act, 1961 (“**Amalgamation**”).
  - Adjustment of the entire debit balance in the Statement of Profit and Loss as on 31<sup>st</sup> December, 2016 against the Securities Premium Account.



The appointed date for Slump Sale and Amalgamation under the Scheme is 1<sup>st</sup> January 2017 ("**Appointed Date**"). Mukand individually and jointly with other individuals hold 100% equity share capital of MVSL and MASPL as on 31<sup>st</sup> December, 2016.

- 1.2. This report of the Audit Committee is made in order to comply with the requirements of SEBI Circular No CIR/CFD/CMD/16/2015 dated 30th November, 2015 issued by the Securities and Exchange Board of India ("**SEBI Circular**").
- 1.3. Pursuant to and in compliance of the SEBI Circular, the Audit Committee at their meeting held on 12<sup>th</sup> January, 2017 has examined the following documents, amongst others:
- i) Scheme, duly initialed by the Company Secretary of the Company for the purpose of identification;
  - ii) Certificate dated 12<sup>th</sup> January, 2017 issued by M/s Sanjay & Snehal, Independent Chartered Accountants, certifying the value of assets and liabilities of Transferred Undertaking as on 31<sup>st</sup> December, 2016 ("**CA Certificate**")
  - iii) Valuation report dated 12<sup>th</sup> January, 2017 issued by M/s Sharp & Tannan, Independent Chartered Accountants, prescribing the Share Entitlement Ratio with respect to the Amalgamation ("**Valuation Report**");
  - iv) Fairness opinion dated 12<sup>th</sup> January, 2017 issued by JM Financial Institutional Securities Ltd. (Category I SEBI registered Merchant Banker), providing the fairness opinion on the Share Entitlement Ratio recommended by M/s Sharp & Tannan in their Valuation Report ("**Fairness Opinion**");
  - v) An undertaking certified by M/s Haribhakti & Co. LLP, Chartered Accountants, statutory auditors of the Company, clearly stating the reasons for non-applicability of Para I(A)(9)(a) of Annexure-I of SEBI Circular. The above is based on the undertaking duly signed by the Company Secretary of the Company;
  - vi) Certificate from M/s Haribhakti & Co. LLP, Chartered Accountants, statutory auditors of the Company dated 12<sup>th</sup> January, 2017, in terms of Regulation 37 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**LODR Regulations**") read with Para I(A)(5)(a) of Annexure-I of the SEBI Circular confirming that the accounting treatment contained in the Scheme is in compliance with LODR Regulations and circulars issued there under and all the Accounting Standards notified by the Central Government under the Companies Act, 2013 or the Accounting Standards issued by ICAI as applicable and Section 232(3) of the Companies Act 2013;
  - vii) Certificate dated 12th January, 2017 from a) M/s Lodha & Co, Chartered Accountants, statutory auditors of MVSL and b) Mr. D. K Doshi, Chartered Accountant, statutory auditor of MASPL, confirming that the accounting treatment contained in the Scheme is in compliance with all the applicable Accounting Standards specified by the Central Government under section 133 of the Companies Act, 2013 read with the rules framed thereunder and in terms of Section 232(3) of the Companies Act 2013;



- viii) Net worth certificate issued by M/s Sanjay & Snehal, Chartered Accountants, certifying the pre & post Scheme net worth of the Company, MVSL and MASPL.
- ix) Certificate dated 12th January, 2017 issued by M/s Sanjay & Snehal, Chartered Accountants, certifying percentage net worth, turnover and profitability of the division being hived off vis-à-vis the other divisions of the Company for the last two years.
- x) Audited financial statements of the Company, MVSL and MASPL as on 31<sup>st</sup> March, 2016, unaudited financial statements of the Company for the quarter ended 30<sup>th</sup> September, 2016, which have been subject to limited review by the statutory auditors of the Company and audited financial statements of MVSL and MASPL as at 31<sup>st</sup> December 2016.

1.4. After detailed consideration of the aforesaid documents and discussions on the same, the recommendation arrived at by the Audit Committee is given below in paragraph 4 of this report.

## 2. Rationale of the Scheme

2.1. The Audit Committee at its meeting held on 12<sup>th</sup> January, 2017 noted the background and rationale for the said Scheme.

This Scheme of Arrangement and Amalgamation is expected to enable better realisation of potential of the businesses and yield beneficial results and enhanced value creation for the companies, their respective shareholders, lenders and employees. The rationale for the Scheme is set out below:

- i. Each of the varied businesses being carried on by Mukand including alloy steel, stainless steel and industrial machinery division has potential for sustainable profitable growth and is also capable of attracting a different set of investors, strategic partners and knowhow providers to scale up the size and operations. Additionally, in order to enable investors to choose the business of their liking and priority of portfolio in the event of such a possibility arising, Mukand proposes to reorganize and segregate its alloy steel rolling & finishing business into a separate company.
- ii. Each business vertical gets the requisite management focus and autonomy to pursue the possibilities of expansion and growth. It can be managed more efficiently leading to better returns.
- iii. The proposed arrangement would result in greater economies of scale and will provide a larger and stronger base for potential future growth.
- iv. The Arrangement and Amalgamation will result in simplification of the corporate structure of the Mukand Group Companies.
- v. The Arrangement and Amalgamation will also facilitate in retirement of debt.



- vi. The amalgamated company would be able to better leverage on its large net worth base and have enhanced business potential.
- vii. The Arrangement and Amalgamation will bring about simplicity in working, reduction in various statutory and regulatory compliances and related costs, which presently have to be duplicated in different entities, reduction in operational and administrative expenses and overheads, better cost and operational efficiencies and it will also result in coordinated optimum utilization of resources.

### 3. Proposed Scheme of Arrangement

The following points were noted by the Audit Committee at its meeting held on 12<sup>th</sup> January, 2017:

- 3.1. The Audit Committee reviewed the CA Certificate, Fairness Opinion and the Valuation Report and noted that the CA Certificate and Valuation Report recommended the consideration and share entitlement ratio respectively, as under:
  - i) **Slump Sale** – A consideration of INR 227 Crs shall be discharged to the Company within 6 months from the effective date of the Scheme or such other date & terms as determined by the Boards of Directors of the concerned companies.
  - ii) **Amalgamation** – MASPL shall issue its equity shares to the shareholders of MVSL (i.e. the Company), in accordance with a share entitlement ratio of 3:1 (“**Share Entitlement Ratio**”), such that upon this Scheme becoming effective, the Company shall be entitled to receive 3 fully paid up equity share of MASPL of INR 10 each for every 1 fully paid up equity share of INR 10 each held in MVSL.
- 3.2. Further, the Fairness Opinion confirmed that the Share Entitlement Ratio mentioned in the Valuation Report is fair.

### 4. Recommendation of the Audit Committee

The Audit Committee, after perusal, deliberation and review of the provisions of the Scheme along with the CA Certificate, Valuation Report, the Fairness Opinion and other documents listed above finds the transactions as listed in the Scheme, along with the Appointed Date given therefore, the arrangements provided therein including the lump sum consideration and Share Entitlement Ratio, to be in the interest of all the Companies involved, their shareholders and other stakeholders and is therefore, also fair and reasonable. Accordingly, the Audit Committee unanimously recommends the Scheme to the Board of Directors for its approval and for a favorable consideration by the Securities and Exchange Board of India, the BSE Limited and National Stock Exchange of India Limited.

For Mukand Limited

Place: Mumbai

Date: 12<sup>th</sup> January, 2017

*D S Mehta*

Mr. Dhirajlal S. Mehta  
Chairman of the Audit Committee

