JINDAL

# JINDAL SAW LTD.

## REPORT OF THE AUDIT COMMITTEE OF JINDAL SAW LIMITED ("COMPANY") RECOMMENDING THE DRAFT COMPOSITE SCHEME OF ARRANGEMENT AMONG JINDAL SAW LIMITED, JITF INFRALOGISTICS LIMITED, JITF SHIPYARDS LIMITED, JITF WATERWAYS LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

### 1. Members

(a) Dr. Raj Kamal Agarwal - Chairman
(b) Shri Girish Sharma
(c) Shri Ravinder Nath Leekha
(d) Shri Devi Dayal
(e) Shri Neeraj Kumar

### 2. Background

In accordance with Section 177 of the Companies Act, 2013 read with Rule 6 of the Companies (Meetings of Board and its Powers) Rules 2014, provisions of the SEBI Circular No. CIR/CFD/DIL/5/2013 dated February 4, 2013 read with SEBI Circular No. CIR/CFD/DIL/8/2013 dated May 21, 2013 ("**Circulars**") and the relevant rules, circulars and notifications issued under the Companies Act, 2013, a draft of a composite scheme of arrangement among the Company, JITF Infralogistics Limited ("**Resulting Company 1**"), JITF Shipyards Limited ("**Transferor Company**"), JITF Waterways Limited ("**Transferee Company**") and their respective shareholders and creditors under Section 391-394 read with Sections 100 -103 of the Companies Act, 1956 and/ or Sections 230-233 of the Companies Act, 2013 and other relevant provisions of the Companies Act, 2013 or Companies Act, 1956 as may be applicable ("**Scheme**") as finalized and recommended by the Reorganisation Committee, was placed before the Audit Committee, for its consideration and recommendation ,to the Board of Directors of the Company.

This report has been made by the Audit committee after perusing *inter alia* the following necessary documents ("**Documents**"):

(a) Draft Scheme;
(b) Fairness opinion dated November 10, 2015, from SPA Capital Advisors Limited, merchant banker;
(c) Valuation report dated November 10, 2015, from Khandelia & Sharma, chartered accountants; and
(d) certificate dated November 10, 2015 issued by N. C. Aggarwal & Co., the statutory auditors of the Company, certifying that the accounting treatment contained in the Scheme is in compliance with all the Accounting Standards specified by the Central Government under the Companies Act, 2013/ the Companies Act, 1956.

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3. **Proposed Scheme**

The Audit Committee perused the Documents placed before it for its consideration and noted that the salient features of the draft Scheme are as under:

(i) (a) demerger of the business interests of the Company in the infrastructure business ("**Demerged Undertaking 1**") and vesting of the same in the Resulting Company 1 in accordance with Section 2 (19AA) of the Income Tax Act, 1961 ("**IT Act**"); (b) the reduction of the issued and paid-up equity share capital of the Resulting Company 1 and securities premium account (if required) of the Resulting Company 1 in the manner set out in Section I of the Scheme; (c) reduction of the capital redemption reserve, capital reserve (if required) and the securities premium account (if required) of the Company in the manner set out in Section I of the Scheme; (d) transfer of a part of the authorized share capital from the Company to the Resulting Company 1; and (e) listing of the equity shares of Resulting Company 1 on the stock exchanges;

(ii) (a) amalgamation of the Transferor Company with the Transferee Company in accordance with Section 2 (1B) of the IT Act; (b) the reduction of capital reserve (if required) and the securities premium account (if required) of the Transferee Company in the manner set out in Section II of the Scheme; (c) dissolution without winding up of the Transferor Company; (d) transfer of the authorized share capital from the Transferor Company to the Transferee Company; and (e) change in the name of the Transferee Company;

(iii) (a) demerger of the business and business interests of the Transferee Company (after giving effect to the amalgamation of the Transferor Company with the Transferee Company) ("**Demerged Company 2**") in its ocean waterways business ("**Demerged Undertaking 2**") and vesting of the same in the Company in accordance with Section 2 (19AA) of the IT Act; (b) the reduction of the capital redemption reserve (if required), capital reserve (if required) and the securities premium account (if required) of the Company in the manner set out in Section III of the Scheme; (c) the reduction of the issued and paid-up equity share capital, capital reserve (if required) and the securities premium account (if required) of the Demerged Company 2 in the manner set out in Section III of the Scheme; and (d) transfer of a part of the authorized share capital from the Demerged Company 2 to the Company. Since the Demerged Company 2 will become a wholly owned subsidiary of the Company after giving effect to the amalgamation of the Transferor Company with the Transferee Company under Section II of the Scheme, there shall be no consideration payable by the Company to the shareholder of the Demerged Company 2 (that is, the Company itself) for the demerger of the Demerged Undertaking 2 from Demerged Company 2 and vesting of the same with the Company;

(iv) Pursuant to the demerger of the Demerged Undertaking 1 from the Company and vesting of the same with the Resulting Company 1, the Resulting Company 1 will issue equity shares to the equity shareholders of the Company as on the Demerger 1 Record Date (*as defined in the Scheme*) as per the following share entitlement ratio:

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- 622 (six hundred and twenty two) equity shares of face value of Rs. 2 (Rupees Two only) each held in the Company as on the Demerger 1 Record Date (*as defined in the Scheme*), the equity shareholders of the Company shall be issued 50 (fifty) equity shares of face value of Rs. 2 (Rupees Two only) each credited as fully paid-up in the Resulting Company 1;

(v) Further if, on the Demerger 1 Record Date (*as defined in the Scheme*), there are any outstanding zero coupon compulsorily convertible debentures of Rs. 81.10 (Rupees Eighty One and Ten Paise only) each issued by the Company ("**Demerged Company 1 CCDs**"), the Resulting Company 1 shall issue and allot zero coupon compulsorily convertible debentures of Rs. 81.10 (Rupees Eighty One and Ten Paise only) each to each holder of the Demerged Company 1 CCDs as on the Demerger 1 Record Date (*as defined in the Scheme*), in the following ratio:

- for every 622 (six hundred and twenty two) outstanding Demerged Company 1 CCDs held in the Company as on the Demerger 1 Record Date (*as defined in the Scheme*), the holder of the Demerged Company 1 CCDs shall be issued 50 (fifty) zero coupon compulsorily convertible debentures of Rs. 81.10 (Rupees Eighty One and Ten Paise only) each as fully paid up in the Resulting Company 1, on the same terms and conditions as are applicable to the Demerged Company 1 CCDs;

(vi) Pursuant to the amalgamation of the Transferor Company with the Transferee Company, the Transferee Company will issue equity shares to the equity shareholders of the Transferor Company as on the Amalgamation Record Date (*as defined in the Scheme*) as per the following share entitlement ratio:

- for every 10 (ten) equity shares of face value of Rs. 10 (Rupees Ten only) each held in the Transferor Company as on the Amalgamation Record Date (*as defined in the Scheme*), the equity shareholders of the Transferor Company shall be issued 26.987 (twenty six point nine eight seven) equity share of face value of Rs. 10 (Rupees Ten only) each credited as fully paid-up in the Transferee Company;

(vii) Further if, on the Amalgamation Record Date (*as defined in the Scheme*), there are any outstanding compulsorily convertible debentures having coupon rate of 9.25% (nine point two five percent) and having face value of Rs. 10,00,00,000 (Rupees Ten Crores only) each issued by the Transferor Company ("**Transferor CCDs**"), the Transferee Company will issue and allot compulsorily convertible debentures having coupon rate of 9.25% (nine point two five percent) and having face value of Rs. 10,00,00,000 (Rupees Ten Crores only) each to each holder of the Transferor CCDs as on the Amalgamation Record Date (*as defined in the Scheme*) in the following ratio:

- for every 1 (one) outstanding Transferor CCDs held in the Transferor Company as on the Amalgamation Record Date (as defined in the Scheme), the holder of the Transferor CCDs shall be issued 1 (one) compulsorily convertible debentures having coupon rate of 9.25% (nine point two five percent) and having face value of Rs. 10,00,00,000 (Rupees Ten Crores only) each as fully

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paid up in the Transferee Company, on the same terms and conditions as are applicable to the Transferor CCDs; and

(viii) The appointed date (i.e. the date from which the Scheme will take effect): (a) for the demerger of the Demerged Undertaking 1 from the Company and vesting of the same with the Resulting Company 1 is opening of business hours as on April 1, 2015, or any other date as may be decided by the respective boards of directors of the Company and the Resulting Company 1; (b) for the amalgamation of the Transferor Company with the Transferee Company is opening of business hours as on April 1, 2015, or any other date as may be decided by the respective boards of directors of the Transferor Company and the Transferee Company; and (c) for the demerger of the Demerged Undertaking 2 from the Demerged Company 2 and vesting of the same with the Company is opening of business hours as on April 1, 2015, or any other date as may be decided by the respective boards of directors of the Demerged Company 2 and the Company.

The Audit Committee also noted the Business Rationale of the aforesaid Scheme which is as follows:

(i) demerger of the Demerged Undertaking 1 and vesting of the same with the Resulting Company 1 would result in optimum utilization of capabilities and bring about dedicated management focus and business strategies for the Company and will enable the Resulting Company 1 to focus on the infrastructure business and further create value for all of its stakeholders. Listing of the equity shares of Resulting Company 1 on the stock exchanges would help the shareholders of Resulting Company 1 to unlock the value of their shares;

(ii) the amalgamation of the Transferor Company with the Transferee Company would result in the consolidation of the operations of waterways transportation business (consisting of ocean waterways and inland waterways transportation) in the Transferee Company, which will lead to synergies, reduction in operational costs and operational inefficiencies in the existing operations of the waterways transportation business by the Transferee Company; and

(iii) demerger of the Demerged Undertaking 2 of the Demerged Company 2 and vesting of the same with the Company would enable the Company to strengthen its ocean logistics capabilities by providing the Company with efficient in-house ocean logistics facilities for the shipment of materials between various domestic/ international locations and will also insulate the Company from the vagaries of third party logistics providers in the shipping industry and will thereby not only stabilize the operating costs of the Company but also result in synergies and better utilisation of capabilities and resources.

## 4. Recommendation of the Audit Committee

Having considered the Documents, the Audit Committee found the draft Scheme to be in the best interests of all the stakeholders in the Company and recommended the draft Scheme for favourable consideration by the Board of Directors of the Company, the shareholders of the Company, the BSE Limited, the National Stock Exchange of India Limited, the Securities and

Exchange Board of India and the Hon'ble High Court of Judicature at Allahabad or the National Company Law Tribunal or such other forum or authority which may be vested with any of the powers of a High Court under the Companies Act, 2013.

JINDAL SAW LIMITED
NEW DELHI

Raj Kamal Agarwal

[Raj Kamal Agarwal]

Date: New Delhi

Place: 10.11.2015

Chairman