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Sundaram-Clayton Limited

REPORT OF THE AUDIT COMMITTEE OF SUNDARAM-CLAYTON LIMITED RECOMMENDING THE DRAFT COMPOSITE SCHEME OF ARRANGEMENT AMONGST SUNDARAM-CLAYTON LIMITED AND TVS HOLDINGS PRIVATE LIMITED AND VS INVESTMENTS PRIVATE LIMITED AND SUNDARAM-CLAYTON DCD PRIVATE LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS AT ITS MEETING HELD ON WEDNESDAY, THE 9TH FEBRUARY 2022 THROUGH VIDEO CONFERENCING

The following members of the Audit Committee were present:

1. Vice Admiral P J Jacob (Retd), Chairman
2. Mr R Gopalan
3. Mr S Santhanakrishnan
4. Mr V Subramanian

By invitation:

1. Mr Vivek Joshi, President & Chief Executive Officer
2. Mr K Gopala Desikan, Chief Financial Officer
3. Mr Mehul Shah, Partner, Khaitan & Co, Legal Advisors
4. Ms Drushti R Desai, Registered Valuer
5. Mr Punit Malik, Vice President, SBI Capital Markets Limited, Merchant Banker

In attendance:

Mr R Raja Prakash, Company Secretary

1. Background

- 1.1. A meeting of the Audit Committee of Sundaram-Clayton Limited ("**Company**" or "**Transferee Company**" or "**Demerged Company**" or "**SCL**") was held on 9th February 2022 to consider and recommend the proposed draft Composite Scheme of Arrangement amongst the Company and TVS Holdings Private Limited ("**Transferor Company 1**") and VS Investments Private Limited ("**Transferor Company 2**") and Sundaram-Clayton DCD Private Limited ("**Resulting Company**") and their respective shareholders and creditors under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 ("**Act**") ("**Scheme**").
- 1.2. The Company is incorporated under the provisions of the Companies Act, 1956. The equity shares of the Company are listed on BSE Limited and the National Stock Exchange of India Limited. Further, the non-convertible debentures of the Company are listed on the National Stock Exchange of India Limited.

- 1.3. The Transferor Company 1, Transferor Company 2 and the Resulting Company are unlisted companies incorporated under the provisions of the Act.
- 1.4. The Appointed Date for each part of the Scheme has been defined in the Scheme to the corresponding effectiveness of such part.
- 1.5. The Audit Committee noted that the Scheme, *inter alia*, provides for the (i) issue of Non-Convertible Redeemable Preference Shares (“NCRPS”) of the Company by way of bonus to the shareholders of the Company by utilising its general reserves/retained earnings; (ii) amalgamation of the Transferor Company 1 with the Company and cancellation of the share capital of the Company held by the Transferor Company 1 and the consideration thereof; (iii) amalgamation of the Transferor Company 2 with the Company and cancellation of the share capital of the Company held by the Transferor Company 2 and the consideration thereof; and (iv) demerger, transfer and vesting of the Demerged Undertaking (*as defined in the Scheme*) from the Company into the Resulting Company on a *going concern* basis, reduction and cancellation of the paid-up share capital of the Resulting Company held by the Demerged Company and the consequent issue of shares by the Resulting Company.
- 1.6. Further, the Audit Committee noted that the share entitlement ratio and issue of consideration pursuant to the Scheme is as under:

(a) For issue of NCRPS of the Company by way of bonus

The Company shall issue 116 NCRPS of face value of INR 10 each fully paid up, for every 1 equity share of INR 5 each fully paid up held by equity shareholder of the Company.

(b) For amalgamation of Transferor Company 1 with the Company

The Company shall issue and allot 1,30,94,460 equity shares of INR 5 each fully paid up and 151,89,57,360 NCRPS of INR 10 each fully paid up to shareholders of the Transferor Company 1, in the proportion of the number of shares held by the shareholders in the Transferor Company 1. In the event, the Transferor Company 1, holds less than 1,30,94,460 equity shares of the Company and/ or 151,89,57,360 NCRPS of the Company (without incurring additional liability) on the Effective Date 2, the shares to be issued by the Company in consideration of the amalgamation of the Transferor Company 1, shall stand reduced by such decreased number of shares held by the Transferor Company 1.

(c) For amalgamation of Transferor Company 2 with the Company

The Company shall issue and allot 19 equity shares of INR 5 each fully paid up of the Company to shareholders of the Transferor Company 2, in the proportion of the number of equity shares held by the shareholders in the Transferor Company 2.

- (d) For demerger, transfer and vesting of the Demerged Undertaking from Company into the Resulting Company

The Resulting Company shall issue the following consideration:

- i. 1 equity share of INR 5 each fully paid up to the shareholders of the Company, for every 1 equity share of INR 5 each held by such shareholder; and
- ii. 1 NCRPS of INR 10 each fully paid up to the shareholders of the Company, for every 1,000 NCRPS held by such shareholder.

The Registered Valuers have certified that the abovementioned consideration for the proposed Scheme, is fair.

- 1.7. This report of the Audit Committee is made in order to comply with the requirements of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**Listing Regulations**") and SEBI Master Circular number SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021 ("**SEBI Master Circular**"), including amendments thereto.
- 1.8. The Audit Committee perused and noted the following:
- (a) Draft Scheme;
 - (b) A presentation on the Share Entitlement Ratio by Ms. Drushti R Desai, Registered Valuer detailing out the factors considered for determining the share entitlement ratio, copy of the signed share entitlement ratio report dated 9th February 2022 issued by Ms. Drushti R Desai (Registration No. IBBI/RV/06/2019/10666), Registered Valuer was noted by the Committee;
 - (c) The Committee also discussed the Fairness Opinion given by the Merchant Bankers viz., SBI Capital Markets Limited on the share entitlement ratio and noted from the report of Merchant Banker that the share entitlement ratio as mentioned above is fair from the financial point of view. Copy of the signed fairness opinion dated 9th February 2022 issued by SBI Capital Markets Limited (Registration No. INM000003531), a Category-I Merchant Banker was noted by the Committee; and
 - (d) The Statutory Auditor informed the Committee that the accounting treatment prescribed in the Scheme is in accordance to IND AS. Certificate dated 9th February 2022, duly signed by M/s. Raghavan, Chaudhuri & Narayanan, Chartered Accountants, the Statutory Auditors of the Company, confirming the above was noted by the Committee.

2. Proposed Scheme of Arrangement

2.1. Need for the Arrangement and Rationale of the Scheme

The Audit Committee of the Company noted the rationale and the benefits of the Scheme which, *inter-alia*, are as follows:

- (a) SCL has built up substantial surplus reserves, over the years from its retained profits. The surplus reserves are well above SCL's current and likely immediate future business needs. Further, barring unforeseen circumstances, SCL is confident of generating incremental cash over the next few years. Overall reserves position is expected to improve further even after considering cash requirements for SCL's capex programme and working capital requirements.
- (b) Further, upon taking into consideration SCL's capability to generate strong cash flow and the surplus reserves being more than what is needed to fund SCL's future growth, SCL is of the view that these excess funds can be optimally utilized to reward its shareholders in such difficult and unprecedented times by way of distribution.
- (c) At the same time, in keeping with SCL's tradition of conventional cash management and being mindful of the challenging business environment, SCL is of the view that it would be prudent to retain liquidity as well. Accordingly, SCL has proposed, *inter alia*, to distribute such funds amongst its shareholders by issuing fully paid up non-convertible redeemable preference shares by way of bonus in terms of this Scheme.
- (d) Non-convertible redeemable preference shares, while giving near-cash (traded, encashable) instrument in the hands of the shareholders, give increased flexibility to SCL in managing its liquidity through options like buy back, redemptions, etc.
- (e) In view of the aforesaid factors, SCL has concluded that it can optimally utilize its surplus reserves by distributing a considerable portion of the same to the equity shareholders. In order to maintain high level of corporate governance and transparency, SCL proposes issuance of preference shares by way of bonus under Section 230 of the Act which will be subject to necessary statutory, regulatory and corporate approvals.
- (f) As part of the restructuring exercise, it is proposed to consolidate all the resources of the Transferor Companies with the Transferee Company. The said amalgamation will result in the following benefits:
 - i. Streamline the promoter holding structure;
 - ii. Optimal utilisation of resources and better corporate governance; and
 - iii. Reduction of administrative responsibilities, multiplicity of records and legal and regulatory compliances.

- (g) Given its diversified business, it has become imperative for the Demerged Company to reorient and reorganize itself in a manner that allows imparting greater focus on each of its businesses. With this repositioning, the Demerged Company is desirous of enhancing its operational efficiency.
- (h) The Scheme proposes to reorganise, segregate and demerge the Demerged Undertaking comprising of manufacturing non-ferrous gravity and pressure die castings from Demerged Company into the Resulting Company and the Demerged Company will be left with group management services' business, trading business and manufacturing of two & three wheeler vehicles through TVS Motor Company Limited.
- (i) The proposed demerger pursuant to this Scheme is expected, inter alia, to result in following benefits:
 - i. segregation and unbundling of the businesses of the Demerged Company into the Resulting Company, which will enable enhanced focus on the Demerged Company and Resulting Company for exploiting opportunities of each of the said companies;
 - ii. unlocking of value for the shareholders of the Demerged Company, attracting investors and providing better flexibility in accessing capital, focused strategy and specialisation for sustained growth;
 - iii. logistics alignment leading to economies of scale for the Resulting Company and creation of sectoral efficiencies and benefitting stakeholders as well as optimization of operation and capital expenditure; and
 - iv. enhancing competitive strength, achieving cost optimisation, ensuring benefits through focused management of the financial, managerial and technical resources, personnel capabilities, skills, expertise and technologies of the Resulting Company and the Demerged Company thereby significantly contributing to future growth and maximizing shareholders' value.

The proposed restructuring is in the interest of the shareholders, creditors, employees, and other stakeholders in each of the companies.

2.2. Synergies of business of the companies involved in the Scheme

The background and information of the companies is, *inter-alia*, as under:

- (a) The Company, *inter alia*, is engaged in the business of manufacturing non-ferrous gravity and pressure die castings and has four manufacturing plants located in Tamil Nadu, group management services' business and business of manufacturing and distributing two & three wheeler vehicles through TVS Motor Company Limited. The Company is a subsidiary of the Transferor Company 1;

- (b) The Transferor Company 1 is engaged in the business of making and holding investments and trading in automobile spare parts;
- (c) The Transferor Company 2 is also engaged in the business *inter alia* of making and holding investments and trading in raw materials and components relating to automobiles;
- (d) The Resulting Company is incorporated to carry on the business of manufacturing non-ferrous gravity and pressure die castings. The Resulting Company is a wholly owned subsidiary of the Company;
- (e) It is proposed to consolidate all the resources of the Transferor Company 1 and the Transferor Company 2 with the Company and streamline the promoter holding structure. Further, pursuant to the Scheme, it is also contemplated to reorganise, segregate and demerge the Manufacturing Business (*as defined in the Scheme*) from the Company to the Resulting Company; and
- (f) Further, the benefits arising out of the proposed Scheme are stated in paragraph 2.1 above.

2.3. Impact of the Scheme on the shareholders of the Company

- (a) In terms of Part II of the Scheme, the Company will issue Non-Convertible Redeemable Preference Shares (“**NCRPS**”) of the Company by way of bonus to all its shareholders (promoter and non-promoter) of the Company by utilising its general reserves/ retained earnings. Pursuant to Part II of the Scheme, there will be no change in equity shareholding pattern of the Company. The NCRPS issued will be listed on the recognized stock exchanges;
- (b) In terms of Part III of the Scheme, the share capital consisting of equity shares and NCRPS held by the Transferor Company 1 in the Company will be cancelled and the Transferor Company 1 will be wound up. Further, the Company shall issue consideration, in form of identical equity shares and NCRPS as held by the Transferor Company 1 in Company as on the Effective Date 2 (*as defined in the Scheme*), to the shareholders of the Transferor Company 1 for amalgamation of the Transferor Company 1 with the Company. Such equity shares and NCRPS issued by the Company will be listed on the recognised stock exchanges;
- (c) In terms of Part IV of the Scheme, the NCRPS held by the Transferor Company 2 in the Company (as acquired from the shareholders of the Transferor Company 1 post Effective Date 2 and prior to Effective Date 3) will be cancelled and the Transferor Company 2 will be wound up. Further, the Company shall issue consideration, in the form of equity shares, to all the shareholders of the Transferor Company 2 for amalgamation of the Transferor Company 2 with the Company. Such equity shares issued by the Company will be listed on the recognised stock exchanges;

- (d) In terms of Part V of the Scheme, each equity shareholder (promoter and non-promoter) of the Company would be entitled to the allotment of equity shares in the Resulting Company in same proportion to their equity shareholding in the Company. Such equity shares issued by the Resulting Company will be listed on the recognised stock exchanges. Further, each NCRPS holder (promoter and non-promoter) of the Company would be entitled to the allotment of NCRPS in the Resulting Company in same proportion to their NCRPS holding in the Company; and
- (e) The proposed restructuring is in the interest of the shareholders of the Company.

2.4. Cost benefit analysis of the Scheme

The Audit Committee also noted that the NCRPS proposed to be issued by the Company will carry a coupon of 9% per annum and will be listed on both the stock exchanges in India viz., BSE Limited and National Stock Exchange of India. Further, the Committee also noted that in addition to issue and allotment of the equity shares by the Resulting Company, which will be listed on above mentioned stock exchanges, the Resulting Company will also issue unlisted NCRPS to shareholders of the Company.

The Audit Committee *inter alia* discussed and deliberated,

- each equity shareholder of the Company will hold equity shares of both, the Company and the Resulting Company, which will be listed on recognised stock exchanges in India;
- the shareholders will also hold listed 9%, NCRPS of the Company and NCRPS of the Resulting Company, which will not be listed in the Stock Exchanges;
- the details of tax costs in the hands of the Company and shareholders, pursuant to the bonus issue of NCRPS; and
- Listing of securities of Resulting Company would improve the liquidity of shares and thereby the public shareholders would get benefited.

3. Recommendation of the Audit Committee

The Audit Committee *inter alia* taking into consideration the draft Scheme, share entitlement ratio report, fairness opinion and certificate issued by the Statutory Auditors of the Company confirming the accounting treatment prescribed in the Scheme is of the view that the Scheme is not detrimental to the interests of shareholders of the Company. In view thereof, the Audit Committee hereby recommends the Scheme to the Board of Directors of the Company for its consideration and approval.

On behalf of the Audit Committee of
SUNDARAM-CLAYTON LIMITED



Vice Admiral P J Jacob (Retd.)
Chairman,
Audit Committee

Place : Bengaluru
Date : 9th February 2022