



Annexure 1

**REPORT OF THE AUDIT COMMITTEE OF GRASIM INDUSTRIES LIMITED RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN GRASIM INDUSTRIES LIMITED ("COMPANY") AND INDORAMA INDIA PRIVATE LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS**

**PRESENT:** Mr. Arun Thiagarajan - Chairman  
Mr. N Mohanraj  
Mr. O. P. Rungta  
Mr. Dilip Gaur

**1. Background of the proposed scheme of arrangement**

A meeting of the Audit Committee ("**Committee**") was held on 12<sup>th</sup> November 2020 to consider and, if thought fit, recommend the proposed scheme of arrangement between the Company, Indorama India Private Limited ("**Transferee Company**") and their respective shareholders and creditors under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 ("**Act**") and in accordance with Section 2(42C) of the Income Tax Act, 1961, involving the transfer of the Company's business of manufacture, trading and sale of urea, customised fertilisers, agri-input, crop protection, plant and soil health products and specialty fertilisers ("**IGF Business**") as a going concern, by way of a slump sale, to the Transferee Company for a lump sum cash consideration ("**Scheme**"). The Scheme is proposed to be effective from the Appointed Date (*as defined in the Scheme*) and operative from the Effective Date (*as defined in the Scheme*).

The Scheme will be presented before the Tribunal(s) (*as defined in the Scheme*) under Sections 230-232 and other applicable provisions of the Act, the rules and regulations made thereunder, and will also be in compliance with Section 2(42C) of the Income Tax Act, 1961 and the circular no. CFD/DIL3/CIR/2017/21 dated 10<sup>th</sup> March 2017 issued by SEBI (*as amended inter alia* by circular no. CFD/DIL1/CIR/P/2020/215 dated November 3, 2020) ("**Scheme Circular**").

In terms of the Scheme Circular, a report from the Committee is required recommending the draft Scheme, taking into consideration inter alia the Valuation Report (*as defined hereinafter*), and commenting on the rationale of the Scheme, impact of the Scheme on the shareholders, cost benefit analysis of the Scheme and synergies of business of the entities involved in the Scheme. This report of the Committee is made in order to comply with the requirements of the Scheme Circular.

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The following documents were placed before the Committee for its consideration:

- (a) the draft Scheme, the draft Implementation Agreement and the draft non-compete agreement between the Company and the Transferee Company;
- (b) Valuation report dated 12<sup>th</sup> November 2020 issued by Drushti R. Desai (IBBI Registration No. IBBI/RV/06/2019/10666), a registered valuer pursuant to Section 247 of the Act, stipulating *inter alia* the methodology adopted and the valuation arrived at in relation to the Divestment Business Undertaking ("**Valuation Report**");
- (c) Fairness opinion dated 12<sup>th</sup> November 2020 issued by Kotak Mahindra Capital Company Limited, Merchant Banker, (bearing registration number INM000008704), a SEBI registered merchant banker, to the Company, providing its opinion on the fairness of the valuation of Divestment Business Undertaking ("**Fairness Opinion**");
- (d) Undertaking on non-applicability of para I(A)(9)(b) of Annexure I of the SEBI Scheme Circular to the Scheme and the draft auditor's certificate, certifying the said undertaking; and
- (e) draft of the Auditors' Certificate pursuant to para I(A)5 of Annexure I of the SEBI Scheme Circular in the prescribed format to the effect that the accounting treatment contained in the Scheme is in compliance with all the Accounting Standards specified by the Central Government under Section 133 of the Act, read with applicable rules and/or the accounting standards and principles.

## 2. Salient features of the Scheme

The Committee discussed and noted the rationale and the benefits of the proposed Scheme, key financial and other indicators, impact of the Scheme on the shareholders and cost benefit analysis of the Scheme as below:

- (a) The draft Scheme provides for transfer of the Divestment Business Undertaking (as defined in the Scheme) of the Company, which pertain to the IGF Business, to the Transferee Company, as a going concern.
- (b) The Appointed Date (*as defined in the Scheme*) for the transfer of Divestment Business Undertaking is the same as the Effective Date (*as defined in the Scheme*).

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- (c) Upon effectiveness of the Scheme and with effect from the Appointed Date, the Divestment Business Undertaking shall, subject to the provisions of the Scheme and pursuant to Section 232(4) of the Act, be transferred to and vested in the Transferee Company, in accordance with the Scheme;
- (d) Rationale for the Scheme:
- The transfer of the Divestment Business Undertaking pursuant to this Scheme would *inter alia* result in the following benefits in *case of the Company*:
- (i) Further enabling the Company to pursue growth opportunities in its core business(es) with increased focus and more optimized utilization of its capital and resources; and
- (ii) Unlocking value for the Company with overall improvement in working capital cycle due to release of blocked funds from long receivable cycle in IGF Business.
- (e) The transfer of Divestment Business Undertaking shall constitute sale and transfer of an undertaking on a 'slump sale' basis, for a lump sum consideration as contemplated under the provisions of Section 2(42C) of the Income Tax Act, 1961.
- (f) In consideration for the transfer of the Divestment Business Undertaking by Company to the Transferee Company, pursuant to the Scheme, the Transferee Company shall pay a lump sum Final Purchase Consideration (*as defined in the Scheme*) to the Company, upon the effectiveness of the Scheme.
- (g) The Scheme is subject to various conditions precedent specified in the Scheme, including:
- (i) approval of the Scheme by the requisite majorities of shareholders and/or creditors of each of the Transferor Company and the Transferee Company as required under Sections 230-232 of the Act;
- (ii) approval of the Scheme by the BSE Limited and the National Stock Exchange of India Limited ("**Stock Exchanges**"), and Securities and Exchange Board of India ("**SEBI**"), pursuant to the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015 (as amended) and the circular no. CFD/DIL3/CIR/2017/21 dated 10<sup>th</sup> March 2017 (as amended) on Schemes of Arrangement by Listed Entities and



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Relaxation under Sub-rule (7) of rule 19 of the Securities Contracts (Regulation) Rules, 1957 issued by the Securities and Exchange Board of India ("SEBI Scheme Circular");

- (iii) the Scheme being sanctioned by each jurisdiction Tribunal (*as defined in the Scheme*) in terms of Sections 230-232 of the Act;
  - (iv) the receipt or waiver (where permissible) of any approvals and/or consents from third parties as mutually agreed in writing between the Company and the Transferee Company, specifically listed under the Implementation Agreement, as being required prior to effectiveness of this Scheme;
  - (v) the Competition Commission of India (or any appellate authority in India having appropriate jurisdiction) having granted or deemed to have granted approval, if applicable, to the transaction envisaged under the Scheme in form and substance reasonably acceptable to the Company and the Transferee Company, pursuant to the provisions of the Competition Act, 2002 and the rules and regulations thereunder; and
  - (vi) the certified copies of the Tribunal Order(s) (*as defined in the Scheme*) sanctioning this Scheme being filed with the respective jurisdictional RoC by the Company and the Transferee Company.
- (h) Impact of the Scheme on the shareholders: The proposed Scheme is expected to create value for the shareholders, as the consideration realised from sale of IGF business pursuant to the proposed Scheme can be utilized for growing core businesses where the Company enjoys a leadership position and advantage of scale.
- (i) Need for the arrangement: The rationale for the Scheme is set out in (d) above.
- (j) Cost benefit analysis of the Scheme: The Final Purchase Consideration (*as defined in the Scheme*) represents a fair value of the Divestment Business Undertaking, as substantiated by the Valuation Report and Fairness Opinion obtained by the Company in relation to the valuation of the Divestment Business Undertaking. Further, since Divestment Business Undertaking is a business with low return on capital employed, any capital released pursuant to the Scheme becoming effective could be utilized in the opportunities that are present in businesses with higher return on capital employed.
- (k) Synergies of business of the entities involved in the Scheme: Since the Scheme involves divestment of an undertaking of the Company, requirement of synergies between the businesses of the Company and the Transferee Company is not applicable.



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The Committee reviewed and considered the Valuation Report and the Fairness Opinion report placed before the Committee. The lumpsum consideration amount of Rs. 2,649 Crore only as adjusted by increase / (decrease) in Working Capital Adjustment and (increase) / decrease in Capex Adjustment adjusted amount for the Divestment Business Undertaking to be paid by the Transferee Company to the Company in lieu of the transfer of the Divestment Business Undertaking was considered to be fair by the Committee.

**3. Recommendation of the Committee**

In light of the aforesaid, the Committee recommends the draft Scheme, taking into consideration *inter-alia* the Valuation Report of the Divestment Business Undertaking, Fairness Opinion, rationale of the Scheme, impact of the Scheme on the shareholders and other stakeholders and cost benefit analysis of the Scheme, to the Board of Directors of the Company, Stock Exchanges and SEBI for its approval.

This report of the Committee is made in order to comply with the requirement of the Scheme Circular after considering the necessary documents.

**By order of the Audit Committee of Grasim Industries Limited**

**Arun Thiagarajan,  
Chairman of the Committee**

DIN: 00292757

Place: Bangalore

Date: 30.11.2020

