

REPORT OF THE AUDIT COMMITTEE (“COMMITTEE”) OF DALMIA BHARAT SUGAR AND INDUSTRIES LIMITED ON THE DRAFT SCHEME OF ARRANGEMENT BETWEEN DALMIA BHARAT SUGAR AND INDUSTRIES LIMITED AND DALMIA BHARAT REFRACTORIES LIMITED AND THEIR RESPECTIVE SHAREHOLDERS

This Report of the Audit Committee is considered and approved by the Committee at its meeting held on February 02, 2024.

Members Present:

Ms. Amita Misra	:	Chairperson of the Audit Committee
Mr. P. Kannan	:	Member
Mr. B.B Mehta	:	Member

Company Secretary:

Ms. Aashhima V Khanna

1. Background:

- 1.1. The proposal to consider and recommend the draft Scheme of Arrangement between Dalmia Bharat Sugar and Industries Limited (“**Demerged Company**” or “**DBSIL**” or “**Company**”) and Dalmia Bharat Refractories Limited (“**Resulting Company**” or “**DBRL**”) and their respective shareholders (the “**Scheme**” / “**Demerger**”) was presented to and considered by the members of the Committee at its Meeting held on February 02, 2024 at 12th Floor, Hansalaya Building, 15, Barakhamba road, New Delhi – 110001.
- 1.2. The Demerged Company is a public listed company incorporated under the provisions of the Indian Companies Act, 1913, bearing the corporate identification number (CIN) L15100TN1951PLC000640. It is engaged in manufacturing of sugar, generation of power, manufacturing of industrial alcohol and refractory products and providing travel related services. DBSIL has a refractory unit, i.e., Dalmia Magnesite Corporation (“**DMC Unit**”) which is engaged in the business of manufacturing of refractories. DBSIL also has a separate unit named as Govan Travels (“**GT Unit**”), which is engaged in the business of tour and travel services.

- 1.3. The Resulting Company is a public listed company incorporated under the provisions of the Companies Act, 1956 bearing the CIN L26100TN2006PLC061254. As per its object clause DBRL, inter alia, carries on the business of producers, miners, manufacturers, research and development, producers, processors, importers, exporters, etc, otherwise deal in cement, any kind of building material and refractory mineral and other products and by-products.
- 1.4. DBSIL and DBRL collectively be referred to as the “**Companies**”.
- 1.5. The equity shares of the Company are listed on BSE Limited (“**BSE**”) and the National Stock Exchange of India Limited (“**NSE**”, and together with BSE, “**Stock Exchanges**”). The Company will be filing the Scheme along with necessary information/documents with the Stock Exchanges.
- 1.6. The Report of the Committee is made in order to comply with the requirements of the Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023 (“**SEBI Circular**”), as issued by the Securities and Exchange Board of India (“**SEBI**”), read with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**SEBI Listing Regulations**”), after considering the following:
 - 1.6.1. Draft Scheme;
 - 1.6.2. Valuation report dated February 02, 2024 issued by Valecs Ecotech Pvt. Ltd. (Firm Registration Number IBBI/RV-E/02/2022/178), being registered valuer appointed for the purpose of the Scheme (“**Valuation Report**”);
 - 1.6.3. Fairness opinion report dated February 02, 2024 issued by M/s D & A Financial Services (P) Ltd., SEBI registered Category I merchant banker having license no. INM000011484 providing the fairness opinion on the share entitlement recommended in the Valuation Report (“**Fairness Opinion**”); and
 - 1.6.4. Certificate dated February 02, 2024 issued by the Statutory Auditors of the Company, i.e., NSBP & Co., Chartered Accountants (FRN: 001075N) to the effect that the Scheme is in compliance with applicable Accounting Standards specified by the Central Government under Section 133 of the Companies Act, 2013 (“**Statutory Auditors Certificate**”).

2. Proposed Scheme:

- 2.1. The Scheme provides for transfer by way of demerger and vesting of the Demerged Undertakings (*as defined in the Scheme*) consisting of DMC Unit and

GT Unit of the Demerged Company into the Resulting Company and consequent issue of New Equity Shares (*as defined in the Scheme*) by the Resulting Company to the shareholders of the Demerged Company in accordance with the provisions of Sections 230 to 232 of the Companies Act, 2013 and other applicable provisions, if any.

2.2. Consideration/Share Exchange/Entitlement Ratio:

In terms of the Scheme and based on Valuation Report and Fairness Opinion, following would be the share entitlement ratio:

“1 fully paid-up equity share of face value of INR 10 each of the Resulting Company shall be issued and allotted for every 48.18 fully paid up equity share of face value INR 2 each held by equity shareholders of the Demerged Company.”

- 2.3. The “Appointed Date” for the Scheme mean July 01, 2023 or such other date as may be agreed by the Board(s) of Demerged Company and Resulting Company or as the Hon’ble NCLT may decide/approve, being the date with effect from which this Scheme shall become operative and/or be deemed to have become operative.
- 2.4. The “Effective Date” for the Scheme shall mean the last of the dates on which all the conditions and matters referred to in Clause 23 of the Scheme have been fulfilled or are waived by the Board(s) of both Demerged Company and Resulting Company.
- 2.5. The Scheme would be subject to the sanction or approval of the Hon’ble National Company Law Tribunal, SEBI, Stock Exchanges, shareholders, creditors and other Government Authorities (*as defined in the Scheme*), as may be required.

3. Rationale / Need for demerger of the Demerged Undertakings into the Resulting Company:

RATIONALE OF THE SCHEME

- (A) The Scheme provides for demerger of DMC Unit and GT Unit (being non-core businesses of DBSIL) from DBSIL and transfer and vesting of the same to DBRL which will yield beneficial results and enhanced value creation for their respective shareholders and better security and protection for their lenders and employees.

- (B) The management of DBSIL is of the view that segregation of the DMC Unit and GT Unit from DBSIL will lead to the following benefits:
- Segregation of non-core businesses from sugar business;
 - Efficient and focused management individually on DMC Unit, GT Unit, and sugar business; and
 - Increased flexibility for value extraction and fund raise.
- (C) The management of DBRL is of the view that acquisition of the DMC Unit and GT Unit will lead to the following benefits:
- Focus on the refractory operations carried out by the DMC Unit by demerging it from DBSIL for whom this is currently a non-core business.
 - Focus on the business as travel agents, tour operators, clearing and forwarding agents and to do all activities ancillary to these activities which are related to GT Unit; and
- (D) This Scheme shall be in the beneficial interest of all the stakeholders and the shareholders of the Demerged Company and the Resulting Company. In these circumstances, it is considered desirable and expedient to demerge DMC Unit and GT Unit from the Demerged Company to the Resulting Company in the manner and on the terms and conditions stated in this Scheme.

4. Synergies

- 4.1. Considering the varied nature and potential opportunities of each of the business segments and the need for a focused approach to unlock these opportunities, it is now considered expedient to demerge the DMC Unit and GT Unit (being non-core business) of the Demerged Company.
- 4.2. The said Demerger would assist in creating a sharper and efficient focus and accountability, individually in sugar, refractory and travel operations and the management is of the view that said Demerger would help the Company in:
- 4.2.1 Segregation of non-core business from sugar business;
 - 4.2.2 Efficient and focused management of DMC Unit and GT Unit;
 - 4.2.3 Increased flexibility for value extraction and fund raise.
- 4.3. To unlock the value of DMC Unit and GT Unit, it is considered appropriate to separate it and keep it in an independent listed entity. Further, the said Demerger will lead to benefits as explained in clause 3 above.

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

The Committee reviewed the draft Scheme, Valuation Report, Fairness Opinion and Statutory Auditors Certificate and noted the same and recommended the following:

- 5.1 Upon the Scheme becoming effective, all assets, properties, rights and powers and all debts, liabilities, duties and obligations and such other ventures including ancillary and support services in relation to the Demerged Undertakings shall be transferred to the Resulting Company on a going concern basis.
- 5.2 Further, pursuant to the Scheme, in consideration for the Demerger, the Resulting Company will issue its equity shares to the shareholders of the Demerged Company based on the Valuation Report.
- 5.3 The provisions of this Scheme have also been drawn up to comply with the conditions relating to "Demerger" as defined under section 2(19AA) of the Income Tax Act, 1961 and therefore, it may not have any tax implications.
- 5.4 Based on the above and as there is no proposed change in the shareholding pattern of the Company pursuant to the Scheme, the Committee is of the informed opinion that the proposed Scheme is in the best interests of the shareholders of the Company and not detrimental to the interest of the shareholders, including the minority shareholders of the Company.
- 5.5 Further, the Fairness Opinion confirmed that the share entitlement in the Valuation Report is fair to the Demerged Company, the Resulting Company and their respective shareholders.

6. Cost benefit analysis of the Scheme

The Committee is of the opinion that the expected benefits of the Demerger/Scheme, as described hereinabove, which are not quantifiable, would offset the impact of transaction costs.

7. Recommendations of the Audit Committee:

The Committee, after due deliberations and consideration of all the terms of the

draft Scheme, Valuation Report, Fairness Opinion, and the specific points mentioned above recommends the draft Scheme for favorable consideration by the Board of Directors of the Company, the BSE, the NSE, and SEBI.

This Report of the Committee is made after considering the necessary documents and the same shall be treated as compliance under the applicable provisions of the SEBI Listing Regulations, SEBI Circular and other applicable provisions, if any. The Committee is entitled to make relevant modifications to this Report, if required, and such modifications or amendments shall be deemed to form part of this Report.

**For Audit Committee of
Dalmia Bharat Sugar and Industries Limited**



Amita Misra
Chairperson of the Committee
DIN: 07942122

Date: February 02, 2024
Place: New Delhi