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TATA STEEL LIMITED

Parvathesam K.
(PARVATHEESAM. K.)
COMPANY SECRETARY &
CHIEF LEGAL OFFICER (CORPORATE & COMPLIANCE)

REPORT ADOPTED BY THE AUDIT COMMITTEE OF TATA STEEL LIMITED AT ITS MEETING HELD ON THURSDAY, APRIL 25, 2019, IN RELATION TO THE PROPOSED AMALGAMATION OF BAMNIPAL STEEL LIMITED AND TATA STEEL BSL LIMITED WITH TATA STEEL LIMITED

1. Background

The Audit Committee at its meeting held on April 25, 2019 was requested to consider and recommend to the Board of Directors, a draft of the proposed composite scheme of amalgamation for the amalgamation of Bamnipal Steel Limited ('Transferor Company 1') and Tata Steel BSL Limited ('Transferor Company 2') with Tata Steel Limited ('Transferee Company' or 'Company'), (hereinafter referred to as 'Scheme'), to be implemented under Sections 230 to 232 of the Companies Act, 2013 ('Companies Act') and other applicable laws including the Securities and Exchange Board of India ('SEBI') Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 (as amended from time to time) ('Circular').

This report of the Audit Committee is made to comply with the requirements of the Circular.

The following documents were placed before the Audit Committee:

1. While deliberating on the Scheme, the Audit Committee had, inter-alia, considered and has taken on record the following documents:
 - (a) A draft of the proposed Scheme;
 - (b) Valuation Report dated April 25, 2019, issued by Mr. Vikrant Jain, an Independent Chartered Accountant, who in his report, has recommended the share exchange ratio of 1:15, that is, 1 fully paid up equity share of nominal value of Rs. 10/- each of the Transferee Company for every 15 fully paid up equity shares held by the public shareholders in Transferor Company 2, to be allotted to the public shareholders of Transferor Company 2 pursuant to the Scheme ('Valuation Report');
 - (c) Fairness opinion dated April 25, 2019, issued by EY Merchant Banking Services Private Limited, a SEBI Registered Category 1 Merchant Banker providing the fairness opinion on the share exchange ratio recommended in the Valuation Report prepared by Mr. Vikrant Jain ('Fairness Opinion'); and
 - (d) Auditor's certificate dated April 25, 2019 issued by the statutory auditors of the Company, i.e. Price Waterhouse & Co Chartered Accountants LLP ('Auditor's Certificate'), to the effect that the Scheme is in compliance with applicable Accounting Standards specified by the Central Government in Section 133 of the Companies Act, 2013.

2. Proposed Scheme of Amalgamation

- 2.1. The Audit Committee noted the rationale of the Scheme, which inter-alia is as follows:

Commercial rationale for amalgamation of the Transferor Company 1 with the Transferee Company

Background: Transferor Company 1 is a wholly owned subsidiary of Transferee Company and was incorporated *inter alia* for the purposes of completing the acquisition of the Transferor Company 2 by way of the corporate insolvency resolution process prescribed under the Insolvency and Bankruptcy Code, 2016. Pursuant to the order of the National Company Law Tribunal, Principal Bench, New Delhi dated May 15, 2018, the Transferee Company through the Transferor Company 1 acquired 72.65% of the equity share capital of the Transferor Company 2.

TATA STEEL LIMITED

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Corporate Identity Number L27100MH1907PLC000260





- (a) The Transferor Company 1 holds equity shares in the Transferor Company 2 and is its holding company. Pursuant to the completion of the proposed amalgamation of the Transferor Company 2 into and with the Transferee Company, there would no longer be a requirement for the Transferor Company 1 to exist as a separate legal entity. The rationale for this amalgamation is also to simplify the group structure of the Transferee Company.
- (b) The Transferor Company 1 being a wholly owned subsidiary of the Transferee Company is under the management of the Transferee Company and it would be advantageous to amalgamate the two entities to ensure focused management in the Transferee Company thereby resulting in efficiency of management and maximizing value to the shareholders
- (c) Such amalgamation would result in significant reduction of administrative, operational, financial, managerial and such other costs.

Commercial rationale for amalgamation of Transferor Company 2 with the Transferee Company:

- (a) The Transferor Company 2 and the Transferee Company are engaged in the business of manufacture and sale of steel and steel products. The amalgamation will ensure focused management in the combined entity thereby resulting in efficiency of management and maximizing value for the shareholders. Such restructuring will lead to simplification of group structure by eliminating multiple companies in similar business.
- (b) The proposed amalgamation of the Transferor Company 2 with the Transferee Company in accordance with the terms of the Scheme would enable both the companies to realize benefits of greater synergies between their businesses, yield beneficial results and avail of pooled resources in the interest of maximizing value to the shareholders and the stakeholders.
- (c) The amalgamation would enable operational integration and better facility utilisation.
- (d) The amalgamation will lead to efficient and assured availability of raw materials as well as reduced procurement & Logistics costs.
- (e) The amalgamation should result in synergy benefits arising out of a single value chain thereby reducing costs and working capital and increasing operational efficiencies.
- (f) The amalgamation could enhance value through combined marketing & branding and enhanced customer satisfaction and service levels.

Thus, there is no rationale for the Transferor Company 2 to continue as a separate entity whilst engaged in the same or similar line of business as that of the Transferee Company and it is prudent and appropriate to consolidate same or similar lines of business into one entity by way of this Scheme.

2.2. The Audit Committee noted the salient features of the Scheme, which inter-alia are as under:

- (a) Amalgamation of the Transferor Company 1 and the Transferor Company 2 into and with the Transferee Company under a single Scheme.
- (b) Pursuant to the sanction of the Scheme by National Company Law Tribunal(s), the Scheme shall become effective from the Appointed Date. The Appointed Date for the Scheme is fixed as opening of business hours on April 1, 2019.



- (c) With effect from the Appointed Date, the entire undertaking of the Transferor Company 1 shall stand transferred to and vested in and/or be deemed to have been and stand transferred to and vested in the Company to become the undertaking of the Company.
- (d) The equity shares issued by the Transferor Company 1 to the Company shall stand cancelled in their entirety and the Transferor Company 1 shall stand dissolved without winding up.
- (e) With effect from the Appointed Date, the entire undertaking of the Transferor Company 2 shall stand transferred to and vested in and/or be deemed to have been and stand transferred to and vested in the Company to become the undertaking of the Company.
- (f) The entire equity share capital and the preference share capital of the Transferor Company 2 including the equity shares issued by the Transferor Company 2 to the Transferor Company 1 and the preference shares issued by the Transferor Company 2 to the Transferee Company shall stand cancelled in its entirety, which shall be effected as a part of the Scheme and not in accordance with Section 66 of the Act and in the manner stipulated in Part III of the Scheme.
- (g) Issue and allotment of 1 fully paid up equity share of the Company to the public shareholders of the Transferor Company 2 based on the share exchange ratio as determined by the Valuer under the Valuation Report and the Fairness Opinion provided by the Merchant Banker.
- (h) Equity shares issued by the Transferee Company to the equity shareholders of the Transferor Company 2 pursuant to the Scheme would be listed on the BSE Limited and the National Stock Exchange of India Limited (collectively, the "Stock Exchanges").

3. Recommendations of the Audit Committee:

The Audit Committee after taking into consideration the Valuation Report and the Fairness Opinion recommends the draft Scheme for favorable consideration by the Board of Directors of the Company, the Stock Exchanges and SEBI.

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**For and on behalf of the Audit Committee
of Tata Steel Limited**

O. F. Bhatt
**O. F. Bhatt
Chairman of Audit Committee**

Date: April 25, 2019

Place: Mumbai

