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TATA STEEL LIMITED

Parvatheesam
(PARVATHEESAM KANCHINADHAM)
COMPANY SECRETARY &
CHIEF LEGAL OFFICER (CORPORATE & COMPLIANCE)

REPORT ADOPTED BY THE AUDIT COMMITTEE OF TATA STEEL LIMITED AT ITS MEETING HELD ON SEPTEMBER 22, 2022, IN RELATION TO THE PROPOSED SCHEME OF AMALGAMATION OF TATA STEEL LONG PRODUCTS LIMITED INTO AND WITH TATA STEEL LIMITED AND THEIR RESPECTIVE SHAREHOLDERS

Members Present:

Mr. Deepak Kapoor - Independent Director and Chairman of the Committee
Mr. O. P. Bhatt - Independent Director and Member of the Committee
Mr. Saurabh Agrawal – Non-Executive Director and Member of the Committee

In attendance:

Mr. Parvatheesam Kanchinadham,
Company Secretary & Chief Legal Officer (Corporate & Compliance)

Management:

Mr. T.V. Narendran, Chief Executive Officer and Managing Director
Mr. Koushik Chatterjee, Executive Director and Chief Financial Officer

Auditors:

Mr. Subramanian Vivek, Price Waterhouse & Co Chartered Accountants LLP
Mr. Pinaki Chowdhury, Price Waterhouse & Co Chartered Accountants LLP

Registered Valuers:

Mr. Vikrant Jain, Registered Valuer
Mrs. Sadaf Saiyed, Representative from Registered Valuer's office

Merchant Bankers:

Mr. Navin Vohra, Ernst & Young Merchant Banking Services LLP
Mr. Vipul Agarwal, Ernst & Young Merchant Banking Services LLP

1. BACKGROUND:

- 1.1 The Audit Committee, at its meeting held on September 22, 2022, was requested to consider, and if thought fit, recommend to the board of directors ("Board") of Tata Steel Limited ("Transferee Company" or "Company"), a draft of the proposed scheme of

TATA STEEL LIMITED

Registered Office Bombay House 24 Homi Mody Street Fort Mumbai 400 001 India
Tel 91 22 6665 8282 Fax 91 22 6665 7724 Website www.tatasteel.com
Corporate Identity Number L27100MH1907PLC000260



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PRIVATHESSAM KANDU...
COMPANY SECRETARY
CHARTERED ACCOUNTANTS





amalgamation involving the Company and its subsidiary Tata Steel Long Products Limited (“**Transferor Company**”) and their respective shareholders, (hereinafter referred to as “**Scheme**”), wherein the Transferor Company shall amalgamate into and with the Transferee Company in terms of Sections 230 to 232 and other applicable provisions, if any of the Companies Act, 2013 (“**Companies Act**”) read with the rules made thereunder (including any statutory modification(s) or re-enactment(s) or other amendments thereof for the time being in force), Section 2(1B), read with other applicable provisions of the Income-tax Act, 1961 (as amended) (“**IT Act**”) and other applicable laws including SEBI Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021 and the SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 as amended from time to time (“**SEBI Circulars**”).

- 1.2 The Scheme is subject to the receipt of approval from the Board of Directors and (a) requisite majority of the shareholders of the respective Transferor Company and Transferee Company (collectively “**Companies**”); (b) Competent Authority (as defined in the Scheme), (c) SEBI; (d) The National Stock Exchange of India Limited and the BSE Limited (hereinafter collectively referred to as “**Stock Exchanges**”); and (e) such other approvals, permissions and sanctions of regulatory and other statutory or governmental authorities / quasi-judicial authorities, as may be necessary as per applicable laws.
- 1.3 As per the SEBI Circulars, the Audit Committee is required to issue a report recommending the Scheme, taking into consideration *inter alia*, the valuation report, and commenting on the need for the Scheme, rationale of the Scheme, cost benefit analysis of the Scheme, impact of the Scheme on the shareholders of the Company and synergies of business of entities involved.
- 1.4 This report of the Audit Committee is made to comply with the requirements of SEBI Circulars.
- 1.5 The following documents were placed before the Audit Committee and while deliberating on the Scheme, the Audit Committee had, *inter alia*, considered and has taken on record these documents:
 - a) A draft of the proposed Scheme;
 - b) Valuation Report dated September 22, 2022, issued by Mr. Vikrant Jain, Registered Valuer (IBBI Reg no. IBBI/RV/05/2018/10204) (“**Valuation Report**”), who in his report has recommended the share exchange ratio of 67 (sixty-seven) fully paid-up equity shares of nominal value of Re. 1/- each of the Transferee Company for every 10 (ten) fully paid-up equity shares of nominal value of Rs. 10/- each held in Transferor Company (“**Share Exchange Ratio**”);

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- c) Fairness opinion dated September 22, 2022, issued by Ernst & Young Merchant Banking Services LLP, (Reg No. INM000010700), an independent SEBI registered Category-I Merchant Banker providing fairness opinion on the Share Exchange Ratio recommended in the Valuation Report prepared by Mr. Vikrant Jain ("**Fairness Opinion**"); and
- d) Draft Auditor's Certificate dated September 22, 2022 from the Statutory Auditors of the Company i.e. Price Waterhouse & Co. Chartered Accountants LLP ("**Auditors Certificate**"), in terms of Para (A)(5) of Part I of the SEBI Circulars and proviso to sub-clause (j) of Section 232(3) of the Companies Act, 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.

2. PROPOSED SCHEME OF AMALGAMATION:

2.1 The Audit Committee noted the salient features of the Scheme which *inter alia* are as under:

- a) Amalgamation of the Transferor Company into and with the Transferee Company in accordance with Section 2(1B) and other provisions of the IT Act, Sections 230 to 232 of the Companies Act and other applicable laws.
- b) Pursuant to the sanction of the Scheme by the Competent Authority and upon the fulfilment of conditions for the Scheme, the Scheme shall become effective from the opening of business on April 1, 2022 or such other date as may be determined by the Board of Directors of the concerned Companies or directed / allowed by the Competent Authority ("Appointed Date").
- c) With effect from the Appointed Date and upon the Scheme becoming effective, the entire Undertaking (as defined in the Scheme) of the Transferor Company 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, in the manner provided for in the Scheme, in accordance with Sections 230 to 232 of the Companies Act, the IT Act and other applicable laws.
- d) The entire paid-up share capital of the Transferor Company including the shares held by the Transferee Company in the Transferor Company shall stand cancelled in its entirety, without being required to comply with the provisions of Section 66 of the Companies Act.
- e) Issue and allotment of New Shares (as defined in the Scheme) to the Eligible Members (as defined in the Scheme) of the Transferor Company (except the Transferee Company) as of the Record Date (as defined in the Scheme) in accordance with Part II of the Scheme. No shares shall be issued or allotted by the

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Company in respect of the shares held by the Company itself in the Transferor Company and all such shares shall stand cancelled and extinguished without any further act, application or deed.

- f) Transfer of the authorized share capital of the Transferor Company to the Company and consequential increase in the authorized share capital of the Company as provided in Part III of the Scheme.
- g) New Shares to be issued by the Transferee Company to the equity shareholders of the Transferor Company pursuant to the Scheme, would be listed on the Stock Exchanges.
- h) The Transferor Company shall stand dissolved without being wound up.

2.2 The effectiveness of the Scheme is conditional upon fulfilment of the actions specified in the Scheme, which *inter alia* include:

- (a) receipt of consents, no-objection letters, approvals from the Stock Exchanges in accordance with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the SEBI Circulars in respect of the Scheme (prior to filing the Scheme with the Competent Authority), which shall be in form and substance acceptable to the Companies, each acting reasonably and in good faith;
- (b) the Scheme being agreed to (in the manner prescribed herein) by the respective requisite majorities of the various classes of shareholders of the Companies as required under the Companies Act;
- (c) the Scheme being approved by the public shareholders through e-voting in terms of Part – I (A)(10)(a) of SEBI Master circular No. SEBI/HO/CFD/DIL1/CIR/P/2020/249 dated December 22, 2020 and the Scheme shall be acted upon only if votes cast by the public shareholders in favour of the proposal are more than the number of votes cast by the public shareholders against it;
- (d) there having been no interim or final ruling, decree or direction by any Appropriate Authority (as defined in the Scheme), which has not been stayed by an appellate authority, which has the effect of prohibiting or making unlawful, the consummation of the proposed Scheme by any of the Companies; and
- (e) the Scheme being sanctioned by the Competent Authority under Sections 230 to 232 of the Companies Act, on terms as originally approved by or with such modifications as are acceptable to the Companies.

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- (f) receipt of approval or deemed approval from the Appropriate Authority for transfer of all mining leases and other composite licenses, if any, held by the Transferor Company, in favour of the Transferee Company.

Upon the fulfilment of the aforementioned conditions, the Scheme shall become effective on the date or last of the dates on which the certified copies of the order of the Competent Authority sanctioning the Scheme are filed by the Transferor Company and the Transferee Company with their respective Registrar of Companies (whichever is later) ("**Effective Date**").

3. **NEED FOR THE SCHEME:**

The Transferee Company is one of the leading global steel companies, with over 100 (hundred) years of experience in the steel sector and is a pioneer of steel manufacturing in India. The Transferor Company is in the business of production and marketing of sponge iron, which is a single end use (steel making) and a single grade product. It also has one of the largest specialty steel plants in India in the special bar quality segment. The amalgamation will consolidate the business of the Transferor Company and Transferee Company which will result in focused growth, operational efficiencies, and business synergies. In addition, resulting corporate holding structure will bring enhanced agility to business ecosystem of the merged entity.

4. **RATIONALE AND OBJECTIVE OF THE SCHEME:**

- 4.1 The Companies believe that the resources of the merged entity can be pooled to unlock the opportunity for creating shareholder value.
- 4.2 The Companies envisage being able to share best practices, cross-functional learnings, and utilize each other's facilities in a more efficient manner.
- 4.3 Marketing and distribution network of both entities can be collaborated.

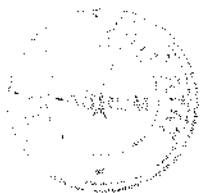
5. **SYNERGIES OF BUSINESS OF THE ENTITIES INVOLVED IN THE SCHEME:**

The proposed scheme would result in the following synergies:

- (a) **Operational integration and better facility utilisation:** The amalgamation will provide an opportunity for reduction of operational costs through better order loads through pooling of orders, improved sales and production planning. Also, the amalgamation will foster maintaining uniform KPIs benchmarks including, consumption of coke, fuel and power, Fe-bearing material, etc. which will reduce overall cost of production and promoter efficiencies. Further, culture of sharing of best practices, cross-functional learnings, will be fostered which will promote greater systemic efficiency.


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- (b) **Improving customer satisfaction, services, and achieving greater market presence in long products segment:** Proposed amalgamation would integrate all long products businesses under a single umbrella fostering an integrated approach to market. Sales and distribution network will be pooled, facilitating in increasing market penetration. Culture of customer delight will be fostered by transitioning to 'one-face' to customers thereby making it easier to address customer needs by providing them uniform product and service experience, resolving customer complaints, ensuring on-time deliveries, and improved service quality. With common credit management, customers are expected to benefit from the channel financing facility as well.
- (c) **Centralized procurement and inventory management:** Inventory management and sourcing of stores, spares, MRO, and services can be managed centrally which will increase scale of operations thereby improving negotiating power, reducing sourcing and inventory management cost.
- (d) **Efficiency in working capital and cash flow management:** Proposed amalgamation will reduce inventory, improve vendor management, and better monitoring of age profile of creditors, thereby releasing working capital from the system. Further, efficiency in debt and cash management will improve substantially enabling the entities to have unfettered access to cash flow generated which can be deployed for growth and sustenance.
- (e) **Improving raw material security:** Proposed amalgamation will ensure improvement in raw material security for the Companies. Iron ores sourced from the mines of the Companies can be blended appropriately which can enhance overall life of mines of the combined entities.
- (f) **Faster execution of projects in pipeline:** The growth of the Transferor Company will be fast tracked by leveraging Transferee Company's technical expertise and financial resources.
- (g) **Rationalization of logistics costs:** Consolidation and optimization of stockyards could significantly reduce logistics and distribution costs for the Companies. Clubbing of cargoes may help lower shipping costs, port terminal charges and ocean freight.
- (h) **Simplified structure and management efficiency:** In line with group level 5S strategy – simplification, synergy, scale, sustainability, and speed – proposed amalgamation will simplify group holding structure, improve agility to enable quicker decision making, eliminate administrative duplications, consequently reducing administrative costs of maintaining separate entities.


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- (i) **Sharing of best practices in sustainability, safety, health and environment:**
Adoption of improved safety, environment and sustainability practices owing to a centralized committee at combined level to provide focused approach towards safety, environment and sustainability practices resulting in overall improvement. Further, overall technology maturity can be enhanced by the merged entity through unfettered access to each other's information technology applications and systems.

6. IMPACT OF SCHEME ON SHAREHOLDERS:

- 6.1 Based on the (a) presentations made by the Registered Valuer and the SEBI registered independent Category – I Merchant Banker and the discussion(s) that ensued thereafter; (b) review of the documents placed at the meeting; (c) Committee's deliberations and consideration of various factors including but not limited to the synergies mentioned in paragraph 5, need for the Scheme, rationale and objective, salient features and expected benefits of the Scheme, the Committee concluded that the proposed Scheme is fair and in the best interest of the shareholders, as the proposed amalgamation is expected to result in economies of scale and consolidation of opportunities, thereby enhancing the value of the merged entity and overall shareholder value.
- 6.2 Further, the Audit Committee noted that, upon the Scheme coming into effect, the Transferee Company shall without any further application, act, instrument or deed, issue and allot 67 (sixty-seven) fully paid-up equity shares of nominal value of Re. 1/- each of the Transferee Company to be allotted to the shareholders of the Transferor Company (except the Transferee Company) for every 10 (ten) fully paid-up equity shares of nominal value of Rs. 10/- each held by the shareholders (except the Transferee Company) in the Transferor Company, whose name(s) appear(s) in the register of members, including register and index of beneficial owners maintained by a depository(ies) under Section 11 of the Depositories Act, 1996 as on the Record Date (as defined in the Scheme).
- 6.3 Given that the Scheme envisages issue of New Shares by the Transferee Company to the shareholders of the Transferor Company, the Audit Committee also considered the impact of issuance of New Shares on the shareholders of the Transferee Company. After due deliberations, the Audit Committee unanimously concluded that the issuance of New Shares in terms of the Scheme will have no significant impact on the shareholders of the Transferee Company.

7. COST BENEFIT ANALYSIS OF THE SCHEME:

The implementation of the Scheme will involve incurring costs including, administrative/statutory levy(ies), fees payable to financial/legal advisors, etc. However, the benefits as stated in paragraph 5 – 'Synergies of Business of the Entities' involved in the Scheme, are expected to outweigh costs towards implementation of the Scheme.


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8. VALUATION REPORT AND FAIRNESS OPINION:

- 8.1 The Audit Committee reviewed the Valuation Report, discussed the methods of valuation and recommended the Share Exchange Ratio with the independent Registered Valuer and the SEBI registered Category-I Merchant Banker who were present at the meeting.
- 8.2 Based on the discussions with the Registered Valuer and the SEBI registered Category – I Merchant Bankers, review of documents including the Fairness Opinion placed at the meeting, the Audit Committee is of the view that the Share Exchange Ratio is fair to the shareholders of the Company.

9. RECOMMENDATION OF THE AUDIT COMMITTEE:

The Audit Committee, after taking into consideration the Valuation Report and the Fairness Opinion and based on its discussions with the Registered Valuer and the independent SEBI Registered Category -I Merchant Banker, and after reviewing the documents placed at the meeting, recommended the draft Scheme in its present form for favourable consideration by the Board of Directors of Company, the Stock Exchanges and SEBI.

In order for the Transferee Company to comply with the requirements of extant regulations applicable to the listed companies undertaking any scheme of amalgamation, this report of the Audit Committee may please be taken on record by the Board while considering the Scheme for approval and further authorizations.

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

Deepak Kapoor
(DIN: 00162957)
Chairman of the Audit Committee



Date: September 22, 2022

Place: Mumbai

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