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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 MONDAY, FEBRUARY 6, 2023, IN RELATION TO THE PROPOSED SCHEME OF AMALGAMATION OF ANGUL ENERGY 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
Ms. Farida Khambata - Independent Director and Member of the Committee
Ms. Bharti Gupta Ramola - Independent Director and Member of the Committee
Mr. Saurabh Agrawal - Independent 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. Nilesh Jain, Ernst & Young Merchant Banking Services LLP
Mr. Darsh Solanki, Ernst & Young Merchant Banking Services LLP

TATA STEEL LIMITED

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Corporate Identity Number L27100MH19D7PLC0002610





1. BACKGROUND

- 1.1 The Audit Committee, at its meeting held on February 6, 2023, 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 amalgamation involving the Company, and its unlisted subsidiary, Angul Energy Limited ("Transferor Company") and their respective shareholders, (hereinafter referred to as 'Scheme'), wherein the Transferor Company shall amalgamate into and with the parent listed 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), 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') and SEBI Circular No. SEBI/HO/DDHS/DDHS_Div1/P/CIR/2022/0000000103 dated July 29, 2022 updated as on December 1, 2022 ("SEBI Operational Circular").
- 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 the 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 took on record these documents:
- a) A draft of the proposed Scheme;

TATA STEEL LIMITED





- b) Valuation Report dated February 6, 2023, issued by Mr. Vikrant Jain, Registered Valuer (IBBI Reg no. IBBI/RV/05/2018/10204) ('**Valuation Report**'), who in his report has recommended the cash consideration of ₹1,045/- (Rupees One Thousand and Forty Five only) for every 1 (one) fully paid-up equity share of nominal value of ₹10/- (Rupees ten) each held by the shareholders (except the Transferee Company) of the Transferor Company, pursuant to the Scheme;
- c) Fairness opinion dated February 6, 2023, issued by Ernst & Young Merchant Banking Services LLP, an independent SEBI Registered Category-I Merchant Banker providing fairness opinion on the recommended cash consideration in the Valuation Report prepared by Mr. Vikrant Jain ('**Fairness Opinion**'); and
- d) Draft Auditor's Certificate by 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 Circular, Para (A)(6) of Part I of Annex XII-A of SEBI Operational Circular 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 Transferee Company in accordance with 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 conditions for the Scheme to become effective being fulfilled, the Scheme shall become effective from the opening of business hours on April 1, 2022, or such other date as may be determined by the Board of Directors of the Transferee Company and Transferor Company 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 Undertaking of the Company, in the manner provided for in the Scheme, in accordance with Sections 230 to 232 of the Companies Act and other applicable laws.

TATA STEEL LIMITED





- 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) No shares shall be issued or allotted by the 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 application or deed.
- f) Payment of cash consideration as per the approved Valuation Report to all the shareholders of the Transferor Company (except the Transferee Company), without any further act, instrument or deed, in accordance with Part II of the Scheme.
- g) 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.
- 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 by the Transferee Company from the Stock Exchanges (as defined in the Scheme) in accordance with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the SEBI Circulars and the SEBI Operational Circular, 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 of the Transferee Company 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;


TATA STEEL LIMITED





- (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.

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

- 3.1 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 Transferee Company also operates coal and waste heat recovery-based captive power plants to cater its power requirement.
- 3.2 The Transferor Company is engaged in the business of generation of thermal power and has entered into a tolling arrangement with the Transferee Company and is operating as an external processing agent of the Transferee Company by converting coal into power.
- 3.3 The amalgamation will consolidate the business of the Transferor Company and the Transferee Company which will result in focused growth, operational efficiencies, and enhance business synergies. In addition, the 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 amalgamation will ensure consolidation of all power assets under a single entity, which will increase system agility for power generation and allocation. It will help the Company to improve its plant reliability, ensuring steady source of power supply while optimising cost. Further, such restructuring will lead to simplification of group structure by eliminating multiple companies in similar operation.


TATA STEEL LIMITED





- 4.2 The Companies believe that the financial, managerial and technical resources, personnel, capabilities, skills, expertise and technologies of the Companies pooled in the merged entity, will lead to optimum use of infrastructure, rationalisation of cost in the areas of operations and administrative overheads, thereby maximising shareholder value of the merged entity.

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

The proposed Scheme would result in the following synergies:

- a) **Operational efficiencies:** The amalgamation is expected to result in better alignment, optimized power cost, sharing of best practices, cross-functional learnings and better utilisation of common facilities. It would result in synergy benefits arising out of single value chain thereby optimising costs and increasing operational efficiencies;
- b) **Improving asset utilization:** The Transferee Company's technical expertise and financial resources can be used to eliminate congestion in the Transferor Company's operations to improve plant load factor. This will also allow surplus capacity to be monetized by wheeling surplus power to the grid for utilization at different locations of the Transferee Company;
- c) **Simplified structure and management efficiency:** In line with group level 5S strategy – simplification, synergy, scale, sustainability, and speed, the amalgamation will simplify group holding structure, improve agility to enable quicker decision making, eliminate administrative duplications, consequently reducing administrative costs of maintaining separate entities; and
- d) **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 Companies through unfettered access to each other's information technology applications and systems.

6. IMPACT OF THE SCHEME ON SHAREHOLDERS

- 6.1 Based on the (a) presentations made by the Registered Valuer and the independent SEBI Registered Category – I Merchant Banker and the discussion(s) that ensued thereafter; (b) review of the documents placed at the meeting, (c) Audit 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 Audit Committee is of the

TATA STEEL LIMITED





view 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 of the Company noted that, upon the Scheme coming into effect, the Transferee Company shall without any further application, act, instrument, or deed, pay Rs. 1,045/- (Rupees One Thousand and Forty Five only) to the shareholders of the Transferor Company (except the Transferee Company) for every 1 (one) fully paid-up equity share of nominal value of Rs. 10/- (Rupees ten) each held by the shareholders (except the Transferee Company) of Transferor Company, whose name appear in the Register of Members, as on the Record Date (*as defined in the Scheme*).

7. COST BENEFIT ANALYSIS OF THE SCHEME

The Scheme involves payment of cash consideration to the shareholders of the Transferor Company. 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.

8. Valuation Report and Fairness Opinion

- 8.1 The Audit Committee reviewed the Valuation Report alongwith the summary thereof, discussed the methods of valuation and the recommended cash consideration payable to the Eligible Members (*as defined in the Scheme*) of the Transferor Company (other than the Transferee Company) with the independent Registered Valuer and the SEBI Registered Category-I Merchant Banker who were also 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 cash consideration specified in the Valuation Report 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.


TATA STEEL LIMITED





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

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


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



Date: February 6, 2023
Place: Mumbai