



**REPORT OF THE AUDIT COMMITTEE OF JSW STEEL LIMITED (“COMPANY” OR “TRANSFEREE COMPANY”) RECOMMENDING THE COMPOSITE SCHEME OF ARRANGEMENT AMONGST THE COMPANY, CREIXENT SPECIAL STEELS LIMITED AND JSW ISPAT SPECIAL PRODUCTS LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS**

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This report is considered and approved by the Audit Committee of the Company (“**Audit Committee**”) at its meeting held on May 27, 2022 at the registered office of the Company at JSW Centre, Bandra Kurla Complex, Bandra (East), Mumbai – 400051 where the following Audit Committee members were present:

**Members present:**

- |    |                          |   |          |
|----|--------------------------|---|----------|
| 1. | Mr. Seturaman Mahalingam | - | Chairman |
| 2. | Mr. Seshagiri Rao MVS    | - | Member   |
| 3. | Mr. Haigreve Khaitan     | - | Member   |

**Leave of Absence:** All the Members were present

Mr. Seturaman Mahalingam, Chairman of the Audit Committee took the Chair.

**1. Background**

- 1.1. The proposed composite scheme of arrangement amongst the Company, Creixent Special Steels Limited (“**Transferor Company 1**”) and JSW Ispat Special Products Limited (“**Transferor Company 2**”) and their respective shareholders and creditors (“**Scheme**”) under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 (“**the Act**”) read with the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016, and the relevant provisions of the Securities and Exchange Board of India (“**SEBI**”) Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021 (“**SEBI Circular**”) and Securities and Exchange Board of India (Listing Obligations and Disclosures Requirements) Regulations, 2015, has been placed before the Audit Committee at its meeting held on May 27, 2022 for the Audit Committee to consider recommending the said Scheme.
- 1.2. As per the SEBI Circular, the Audit Committee is required to adopt a report recommending the Scheme, taking into consideration *inter alia*, the valuation report, and commenting on the need for the Scheme, rationale for the Scheme, cost benefit analysis of the Scheme, impact of the scheme on the shareholders and synergies of business of the entities involved in the Scheme.
- 1.3. The Audit Committee has considered, reviewed and discussed the following in this respect:
- (a) the draft Scheme which is duly initialled by Company Secretary of the Company for the purpose of identification;
  - (b) valuation report dated May 27, 2022 issued by KPMG Valuation Services LLP, an independent and registered valuer, in respect of the share exchange ratios set out under the Scheme;







- (c) fairness opinion dated May 27, 2022 issued by Axis Capital Limited, an independent and SEBI registered Category I merchant banker, providing opinion on the fairness of the share exchange ratios proposed in the valuation report;
- (d) draft certificate from the statutory auditor of the Company SRBC & Co LLP.

## 2. Proposed Scheme

The Audit Committee has reviewed the draft Scheme and noted it's salient features *inter alia* as set out below:

- (a) amalgamation of (i) firstly, Transferor Company 1 with and into the Transferee Company, and (ii) thereafter, Transferor Company 2 with and into the Transferee Company, in each case, on their respective effective dates (*as set out in the Scheme*) and in accordance with Section 2(1B) of the Income-tax Act, 1961;
- (b) the Appointed Date of the Scheme is April 1, 2022;
- (c) upon the Scheme coming into effect and with effect from the Appointed Date, the Transferor Company 1 together with all present and future assets and liabilities, shall stand transferred to and vest in the Transferee Company, as a going concern, and the Transferee Company will issue 3 (three) fully paid up equity share(s) of INR 1 (Rupee One) each of the Transferee Company to the equity shareholders of the Transferor Company 1 (other than the Transferee Company in respect of its shareholding in Transferor Company 1) as on the record date for every 2 (two) fully paid up equity share(s) of INR 10 (Indian Rupees Ten) each held by such equity shareholders of the Transferor Company 1;
- (d) upon the Scheme coming into effect and with effect from the Appointed Date, the Transferor Company 2 together with all present and future assets and liabilities (save and except as provided in the Slump Sale Scheme (*defined below*)), shall stand transferred to and vest in the Transferee Company, as a going concern, and the Transferee Company will issue: (i) 1 (one) fully paid up equity share(s) of INR 1 (Indian Rupee One) each of the Transferee Company to the equity shareholders of the Transferor Company 2 (other than the Transferee Company in respect of its shareholding in Transferor Company 2, including in respect of shares of the Transferor Company 2 transferred and vested to the Transferee Company from the Transferor Company 1 pursuant to the Scheme) as on the record date for every 21 (twenty one) fully paid up equity share(s) of INR 10 (Indian Rupees Ten) each held by such equity shareholders of the Transferor Company 2; and (ii) 1 (one) fully paid up equity share(s) of INR 1 (Indian Rupee One) each of the Transferee Company to the holder of compulsorily convertible preference shares of the Transferor Company 2 (other than the Transferee Company in respect of its shareholding in Transferor Company 2, including in respect of shares of the Transferor Company 2 transferred and vested to the Transferee Company from the Transferor Company 1 pursuant to the Scheme) as on the record date for every 21 (twenty one) compulsorily convertible preference share(s) of INR 10 (Indian Rupees Ten) each held by such holders of compulsorily convertible preference shares of the Transferor Company 2.





- (e) upon the Scheme becoming effective, each of Transferor Company 1 and Transferor Company 2 shall stand dissolved without being wound-up;
- (f) upon the Scheme coming into effect and with effect from the Appointed Date, the Transferee Company shall account for the amalgamation of Transferor Company 1 and Transferor Company 2 with the Transferee Company in its books of accounts as per the 'Acquisition Method' in accordance with accounting principles as laid down in the Indian Accounting Standard 103 (Business Combinations), notified under Section 133 of the Act read with Companies (Indian Accounting Standards) Rules, 2015.

The “Slump Sale Scheme” is the scheme of arrangement between the Transferor Company 2 and its wholly owned subsidiary, Mivaan Steels Limited, for the slump sale of an undertaking of the Transferor Company 2 (as more particularly set out in the Scheme, and which comprises of, *inter-alia*, manufacturing facilities at Raipur). The appointed date for the Slump Sale Scheme is close of business hours on March 31, 2022. For the avoidance of doubt, it is clarified that: (i) upon the Slump Sale Scheme becoming effective in accordance with its terms, Mivaan Steels Limited shall undertake the business and undertaking transferred to it pursuant to the Slump Sale Scheme, and (ii) upon Section II of the Scheme coming into effect in accordance with its terms, Mivaan Steels Limited shall become a wholly owned subsidiary of the Transferee Company.

### 3. Need and rationale for the Scheme

3.1. The Audit Committee noted and agreed with the need and rationale of the Scheme which is set out below:

- (a) **Synergies in business:** The parties are engaged in similar and / or complementary businesses and their proposed amalgamation pursuant to this Scheme will create synergies between their businesses, including by pooling of their financial, managerial, technical, distribution, marketing and other resources. The proposed amalgamation is expected to, *inter-alia*, result in reduction of costs, better alignment, coordination and streamlining of day-to-day operations of the units.
- (b) **Optimization of raw material procurement:** The Transferee Company has captive iron ore mines and merchant iron ore mines. The manufacturing unit of the Transferor Company 2 situated at Raigarh sources iron ore from the merchant mines of the Transferee Company and pursuant to the proposed amalgamation, the Transferor Company 2 will also source iron ore from the captive iron ore mines of the Transferee Company, which are located closer to the Transferor Company 2, than the merchant iron ore mines of the Transferee Company. Such combined sourcing of raw materials will result in reduction in overall cost of procurement. Further, the requirement of coke for the manufacturing activities of the Transferor Company 2 can also be supplied by the Transferee Company, thereby resulting in further reduction of procurement costs.
- (c) **Utilization of surplus rolling capacity:** The Transferor Company 2 commenced its slab manufacturing capacity in FY 2022. With the commissioning of a second electric arc furnace (EAF) by Transferor Company 2 expected in Q2 FY 2023, its ability to produce crude steel will increase. The facilities of the Transferee Company at Vijayanagar and Anjar have surplus rolling capacity. Thus, the slabs manufactured by the Transferor





Company 2 can be rolled in the said facilities of the Transferee Company, thereby providing opportunity for transfer of intermediate products within the facilities, and thereby increasing the capacity utilization of the Transferee Company's rolling mills.

- (d) **Simplified structure and management efficiency:** The proposed amalgamation will result in a simplification of the existing corporate structure and eliminate administrative duplications, consequently reducing the administrative costs of maintaining separate companies, while reducing multiple legal and regulatory compliances.
- (e) **Enhancing presence in central India:** The Transferee Company does not have manufacturing presence in central India. Pursuant to the proposed amalgamation, the parties shall be better positioned to service customer needs basis their combined portfolio of products and marketing capabilities in central India. The proposed amalgamation will provide opportunities to access new markets, segments, product offerings and customers in central India. Further, with a common credit management system, the customers are expected to benefit from an improved channel financing facility from the combined company.
- (f) **Improved automation:** The proposed amalgamation will result in increased level of automation across all plants of the Transferor Company 2 by using the information technology application and systems of the Transferee Company.

3.2. The Transferor Company 1 holds equity shares and compulsorily convertible preference shares of the Company. Accordingly, pursuant to the amalgamation of the Transferor Company 2 with the Transferee Company, the Transferor Company 1 need not exist as a separate legal entity.

#### 4. Synergies of business of the entities involved in the Scheme

4.1. As detailed above regarding the need and rationale for the Scheme, it is observed that the companies are engaged in similar and / or complementary businesses and the proposed amalgamation pursuant to the Scheme will create synergies between their businesses, including by pooling of their financial, managerial, technical, distribution, marketing and other resources. The proposed amalgamation is expected to, *inter alia*, result in reduction of costs, better alignment, coordination and streamlining of day-to-day operations.

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

5.1. Upon the Scheme becoming effective:

- (a) the Transferee Company will issue 3 (three) fully paid up equity share(s) of INR 1 (Indian Rupee One) each of the Transferee Company to the equity shareholders of the Transferor Company 1 (other than the Transferee Company in respect of its shareholding in Transferor Company 1) as on the record date for every 2 (two) fully paid up equity share(s) of INR 10 (Indian Rupees Ten) each held by such equity shareholders of the Transferor Company 1.
- (b) the Transferee Company will issue: (a) 1 (one) fully paid up equity share(s) of INR 1 (Indian Rupee One) each of the Transferee Company to the equity shareholders of the Transferor Company 2 (other than the Transferee Company in respect of its shareholding in Transferor Company 2, including in respect of shares of the Transferor Company 2





transferred and vested to the Transferee Company from the Transferor Company 1 pursuant to the Scheme) as on the record date for every 21 (twenty-one) fully paid up equity share(s) of INR 10 (Indian Rupees Ten) each held by such equity shareholders of the Transferor Company 2; and (b) 1 (one) fully paid up equity share(s) of INR 1 (Indian Rupee One) each of the Transferee Company to the holder of compulsorily convertible preference shares of the Transferor Company 2 (other than the Transferee Company in respect of its shareholding in Transferor Company 2, including in respect of shares of the Transferor Company 2 transferred and vested to the Transferee Company from the Transferor Company 1 pursuant to the Scheme) as on the record date for every 21 (twenty-one) compulsorily convertible preference share(s) of INR 10 (Indian Rupees Ten) each held by such holders of compulsorily convertible preference shares of the Transferor Company 2.

- 5.2. If any shareholder of Transferor Company 1 or Transferor Company 2 becomes entitled to a fractional equity share to be issued by the Transferee Company, then the treatment of such fractional equity share will be as provided under the Scheme.

#### **6. Cost Benefit analysis of the Scheme**

- 6.1. The Audit Committee noted that the Scheme will provide an opportunity to improve the economic value for the shareholders. This is particularly marked in the improved synergies that will arise pursuant to the Scheme. The proposed amalgamation will result in deriving benefits for future capacity expansion and funding of capital expenditure, given the strong credit rating of the Transferee Company. The Audit Committee further noted that while the Scheme would lead to incurring of some costs towards its implementation, however, the benefits of the Scheme over a longer period would far outweigh such costs for the stakeholders of the Company.

#### **7. Recommendation of the Audit Committee**

- 7.1. The Audit Committee, having considered and noted *inter alia*, the aforesaid valuation report and fairness opinion, recommends the Scheme to the Board of Directors of the Company.

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

**Seturaman Mahalingam**  
**Chairman of the Audit Committee**

**Date: May 27, 2022**

**Place: Mumbai**