JINDAL STAINLESS

REPORT OF THE MEETING OF THE AUDIT COMMITTEE OF JINDAL STAINLESS LIMITED RECOMMENDING THE COMPOSITE SCHEME OF ARRANGEMENT AMONGST JINDAL STAINLESS LIMITED, JINDAL STAINLESS (HISAR) LIMITED, JSL LIFESTYLE LIMITED, JINDAL LIFESTYLE LIMITED, JSL MEDIA LIMITED AND JINDAL STAINLESS CORPORATE MANAGEMENT SERVICES PRIVATE LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

Members Present:

1. Mr. Suman Jyoti Khaitan, Independent Director, Chairman
2. Ms. Bhaswati Mukherjee, Independent Director
3. Mr. Jayaram Easwaran, Independent Director
4. Mr. Parveen Kumar Malhotra, Nominee Director-SBI

1. Background

1.1 A meeting of the Audit Committee was held on 29th December, 2020 to consider and, if thought fit, recommend the proposed Composite Scheme of Arrangement ("**Scheme**") pursuant to the provisions of Sections 230 to 232 read with Section 66 and other applicable provisions of the Companies Act, 2013 ("**Act**") and the rules and regulations made thereunder, and also read with Section 2(1B) and Section 2(19AA) and other applicable provisions of the Income Tax Act, 1961, for (i) Amalgamation of Jindal Stainless (Hisar) Limited (the "**Amalgamating Company No. 1**") into and with Jindal Stainless Limited (the "**Amalgamated Company**"), and (ii) Demerger of the Demerged Undertaking (as defined in the Scheme) of JSL Lifestyle Limited (the "**Demerged Company**") and vesting of the same with and into Jindal Lifestyle Limited (the "**Resulting Company**"), on a going concern basis, and (iii) Subsequent to the demerger of the Demerged Undertaking of the Demerged Company (the "**Amalgamating Company No. 2**"), amalgamation of the Amalgamating Company No. 2 into and with the Amalgamated Company (iv) Amalgamation of JSL Media Limited (the "**Amalgamating Company No. 3**") into and with the Amalgamated Company; and (v) Amalgamation of Jindal Stainless Corporate Management Services Private Limited (the "**Amalgamating Company No. 4**") into and with the Amalgamated Company; in accordance with the terms of the **Scheme** amongst Jindal Stainless Limited, Jindal Stainless (Hisar) Limited, JSL Lifestyle Limited, Jindal Lifestyle Limited, JSL Media Limited and Jindal Stainless Corporate Management Services Private Limited (together referred to as "**Applicant Companies**") and their respective shareholders and creditors.

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1.2 This report of the Audit Committee is made in order to comply with the requirements of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**Listing Regulations**"), SEBI Master Circular bearing number SEBI/HO/CFD/DIL1/CIR/P/2020/249 dated December 22, 2020 consolidating SEBI circulars dated March 10, 2017, March 23, 2017, May 26, 2017, September 21, 2017, January 3, 2018, September 12, 2019 and November 3, 2020 (collectively, the "**SEBI Circulars**")

1.3 The following documents were placed before the Audit Committee:

(a) Draft Scheme;

(b) Valuation Report dated 29th December, 2020, issued by Mr. Niranjan Kumar, Registered Valuer (IBBI Registration No. IBBI/RV/06/2018/10137), for determination of share exchange ratios under the Scheme ("**Valuation Report**");

(c) Fairness Opinion dated 29th December, 2020 prepared by SBI Capital Markets Limited, an Independent SEBI registered Category-I Merchant Banker, confirming that the share exchange ratios in the Valuation Report is fair to the Applicant Companies and their respective shareholders and creditors ("**Fairness Opinion**");

(d) Certificate dated 29th December, 2020 issued by M/s. Walker Chandiok & Co. LLP, Chartered Accountant, Statutory Auditors of Amalgamated Company confirming that the accounting treatment contained in the Scheme is in compliance with all the applicable accounting standards specified by the Central Government under Section 133 of Companies Act, 2013 and other generally accepted accounting principles;

(e) Audited financial statements of the Applicant Companies for the year ending March 31, 2020, March 31, 2019 and March 31, 2018, along with audited financial statements of Amalgamating Company No. 2, 3 & 4 for the period ended 30th September, 2020; and

(f) Un-audited financials along with the Limited Review Report of Amalgamated Company and Amalgamating Company No. 1 for half year ended September 30, 2020.

2. Proposed Scheme

2.1 Salient Features

The Audit Committee considered and observed that the draft Scheme provides for the following:

(a) Amalgamation of Amalgamating Company No. 1 into and with the Amalgamated Company (including cancellation of inter-company investment held by Amalgamating Company No. 1 in the Amalgamated Company);

S. Khaitan

(b) Demerger of the Demerged Undertaking of the Amalgamating Company No. 2 and vesting of the same with and into the Resulting Company, on a going concern basis;

(c) Subsequent to the demerger, the amalgamation of the Amalgamating Company No. 2 into and with the Amalgamated Company;

(d) Amalgamation of the Amalgamating Company No. 3 into and with the Amalgamated Company;

(e) Amalgamation of the Amalgamating Company No. 4 into and with the Amalgamated Company;

(f) The Appointed Date means the opening of business hours on April 1, 2020 or such other date as may be approved by the National Company Law Tribunal, Chandigarh bench (“**NCLT**”); and

(g) The Scheme will come into effect from the date on which the Court order sanctioning the Scheme or any particular parts of the Scheme, is filed with the Registrar of Companies. Any references in the Scheme to “upon this Scheme becoming effective” or “effectiveness of this Scheme” shall be construed accordingly.

2.2 Need of the Scheme of Arrangement

The Audit Committee noted that the management of the Applicant Companies is of the view that the stainless steel industry is poised for substantial growth in the near to medium term which opportunity can be better capitalised as a consolidated entity which has a bigger balance sheet, larger portfolio of products and services and a more streamlined structure. The management of the Applicant Companies further believes that the proposed consolidation will result into better efficiencies and economies of scale and in the post pandemic world, a single unified organisation is likely to have a faster growth trajectory. The consolidated organization is also expected to create more value for all the stakeholders. Also, at the same time, the Scheme addresses the need for the two core businesses of the Demerged Company to be demerged and grown in separate legal entities as the nature of risk and opportunities involved in both these businesses are divergent and capable of attracting different sets of investors.

2.3 Rationale of the Scheme

The Audit Committee noted the below rationale for the proposed Scheme:

S. Khaitan

JINDAL STAINLESS LIMITED

The Amalgamated Company proposes to enter into this Scheme with Amalgamating Company No. 1, Amalgamating Company No. 2 to consolidate their respective manufacturing/service capabilities thereby increasing efficiencies in operations and use of resources, to consolidate their diversified product and services portfolio for improving overall customer satisfaction, to pool their human resource talent for optimal utilization of their expertise, to integrate the marketing and distribution channels for better efficiency, to have a larger market footprint domestically and globally, to simplify and streamline the group structure and to ensure optimization of working capital utilisation, and with Amalgamating Company No. 3 and Amalgamating Company No. 4, to have a simplified and streamlined structure and help in better utilization of the resources and lead to operational efficiencies.

The management of the respective Applicant Companies are of the view that the amalgamations proposed in this Scheme is, in particular, expected to have the following benefits:-

a) Consolidation of the complementing strengths will enable the Amalgamated Company to have increased capability for offering diversified products and services on a single platform. Its enhanced resource base and client relationships are likely to result in better business potential and prospects for the consolidated entity and its stakeholders.

b) The combined financial strength is expected to further accelerate the scaling up of the operations of the Amalgamated Company. Deployment of resources in a more efficient manner is likely to enable faster expansion of the businesses of the Amalgamated Company.

c) The consolidation of funds and resources will lead to optimisation of working capital utilization and stronger financial leverage given the simplified capital structure, improved balance sheet, optimised management structure and consolidation of cross location talent pool.

d) The amalgamation will result in simplification of the group and business structure and will enable the consolidated entity to have a stronger global footprint and more extensive pan India network for deeper market penetration and enhancement of the overall customer satisfaction, engagement and retention.

Above all, since, both, the Amalgamating Company No. 1 and the Amalgamated Company are companies belonging to the same promoter group which are engaged in manufacturing of stainless steel, the amalgamation pursuant to Part B of the Scheme will enable them to bring together their respective synergies in manufacturing of stainless steel thereby enhancing value for all the stakeholders.

The Scheme envisages demerger of the Demerged Undertaking and vesting of the same in the Resulting Company pursuant to Part C of the Scheme, to enable the Resulting Company and the Demerged Company to achieve optimum growth and development of their respective business operations post such demerger. The nature of risk and opportunities involved in both the businesses is divergent and capable of attracting different sets of investors. The management of the respective companies believe that both the businesses (i.e. Non-Mobility Business and Mobility Business (*as defined in the Scheme*)) will benefit from separate focused management and separate investment strategy leading to development, expansion and growth for maximisation of stakeholder value.

After the demerger of the Demerged Undertaking and vesting of the same into the Resulting Company pursuant to Part C of the Scheme the residual undertaking of the Amalgamating Company No. 2 which is engaged in the Mobility Business (*as defined in the Scheme*) and

S. Khaitan

therefore has a greater synergy with the business of the Amalgamated Company (manufacture of stainless steel and stainless steel products) would be amalgamated with the Amalgamated Company pursuant to Part D of the Scheme to tap the larger resources of the Amalgamated Company, enhance its productivity and efficiency of operations and logistics.

Amalgamation of the Amalgamating Company No. 3 pursuant to Part E of the Scheme will lead to a simplified and streamlined structure and help in better utilization of the resources and lead to operational efficiencies.

Amalgamation of the Amalgamating Company No. 4 pursuant to Part F of the Scheme will also lead to a simplified and streamlined structure and help in better utilization of the resources and lead to operational efficiencies.

The management of the respective Applicant Companies is of the view that this Scheme is in the interest of the customers, employees, lenders, shareholders and all other stakeholders of the respective Companies.

2.4 Cost-Benefit Analysis

Though the Scheme would lead to incurring of some costs towards implementation of the Scheme, however, the benefits of the Scheme over a longer period would far outweigh such costs for the stakeholders of the Applicant Companies.

2.5 Synergies of business of the entities involved in the Scheme

As elaborated above in the Rationale of the Scheme, consolidation of respective manufacturing/service capabilities of the Applicant Companies would lead to increase in operational efficiencies and better utilization of resources and hence their amalgamation will bring greater synergy in the operation. Centralization of inventory, from raw material to finished goods and spares may enable better efficiency low procurement costs and overall reduction in working capital. Similarly, combined logistics is likely to lead to in reduction in overall transportation costs for the Amalgamated Company. Further, a simplified group structure will also help in optimal utilisation of the strengths of the respective Applicant Companies.

2.6 Valuation Methods evaluated for the Share Exchange Ratio

The Audit Committee noted that the Valuation Report issued by Mr. Niranjan Kumar, Registered Valuer, inter-alia recommended:

i. Share exchange ratio for the proposed amalgamation of Amalgamating Company No. 1 with Amalgamated Company;

ii. Share entitlement ratio for the proposed demerger of the Demerged Undertaking into the Resulting Company;

S. Khaitan

iii. Share exchange ratio for the proposed amalgamation of Amalgamating Company No. 2 into and with the Amalgamated Company;

The Audit Committee further noted that no shares of Amalgamated Company shall be issued upon merger of Amalgamating Company No. 3 and Amalgamating Company No. 4 with Amalgamated Company since both the companies shall be the wholly owned subsidiary companies of the Amalgamated company on the date of effectiveness of the Scheme.

The Audit Committee was informed by Mr. Niranjan Kumar that three methods were evaluated for the purpose of valuation namely Market Price method / Comparable Companies Multiple ("CCM") method; Discounted Cash Flow ("DCF") method; and Net Assets Value ("NAV") method. For valuation of shares of Amalgamating Company No. 1 and Amalgamated Company, market price method is used since the equity shares of JSL and JSHL are listed on NSE and BSE, widely held and are regularly and frequently traded with reasonable volumes. Therefore, the market price approach was used for valuation of equity shares of JSL and JSHL. DCF method was not considered for valuation of JSL and JSHL shares since both are listed companies and future financial projections, being price sensitive, were not shared. Lastly, NAV method is mostly used for the companies under liquidation therefore the same is not suitable for the proposed transaction as the business of the companies involved are being carried out on going concern basis.

CCM method was also not considered since there is no other listed company in Indian stainless steel domain which has comparable market share.

Accordingly, the pricing formula as prescribed under SEBI Guidelines for preferential issue of shares has been used for determining the swap ratio. As per SEBI formula, 26 weeks or 2 weeks (preceding the date of the Board meeting) average of weekly high and low Volume Weighted Average Price (VWAP), whichever is higher are considered for this purpose. Registered valuer also informed that the value per share of JSL and JSHL as per market price method is assumed to consider the existing warrants / convertible instruments issued by the Company. CCM Method was used for valuation of shares of the Demerged Company.

The Audit Committee noted the above explanation on valuation methodology and agreed with the recommendation of registered valuer. Audit committee also agreed that the market price method is fair method to determine the value of shares of listed company.

The Audit Committee noted the following share exchange ratio:

1. Following share exchange ratio has been determined for the allotment of the equity shares of the Amalgamated Company having face value of Rs. 2 each to the shareholders of the Amalgamating Company No. 1 as on the Part B Record Date (as defined in the Scheme), in consideration for the amalgamation of the Amalgamating Company No. 1 with and into the Amalgamated Company:

S. Kalantan

"195 (One Hundred and Ninety Five) fully paid up equity shares of face value of Rs. 2 each of the Amalgamated Company shall be issued and allotted as fully paid up equity shares to the equity shareholders of the Amalgamating Company No. 1, for every 100 (One Hundred) fully paid up equity shares of face value of Rs. 2 each held by them in the Amalgamating Company No. 1."

"195 (One hundred ninety-five) GDS of Amalgamated Company shall be issued for every 100 (One hundred) GDS held in Amalgamating Company No. 1."

2. Following share exchange ratio has been determined for the allotment of the equity shares of the Resulting Company having face value of Rs.10 each to the shareholders of the Demerged Company as on the Part C Record Date (as defined in the Scheme) whose names appear in the Register of Members of the Demerged Company –

   "1 (One) fully paid up equity shares of face value of Rs.10 each of the Resulting Company shall be issued and allotted as fully paid up equity shares to the equity shareholders of Demerged Company, for every 1 (One) fully paid up equity share of face value of Rs. 10 each held by them in Demerged Company."

3. Following share exchange ratio has been determined for the allotment of the equity shares of the Amalgamated Company having face value of Rs. 2/- each to the shareholders of the Amalgamating Company No. 2 as on the Part D Record Date (as defined in the Scheme), in consideration for the amalgamation of the Amalgamating Company No. 2 with and into the Amalgamated Company:

   "101 (One Hundred and One) fully paid up equity shares of face value of Rs. 2 (Rupees Two) each of the Amalgamated Company shall be issued and allotted as fully paid up equity shares to the equity shareholders of Amalgamating Company No. 2, for every 100 (One Hundred) fully paid up equity share of face value of Rs. 10/- each held by them in Amalgamating Company No. 2."

4. Upon merger of Amalgamating Company No.1 with the Amalgamated Company, Amalgamating Company No. 3 which is currently a wholly owned subsidiary of Amalgamating Company No. 1 will become a wholly owned subsidiary of the Amalgamated Company, hence no further shares of the Amalgamated Company will be issued upon the amalgamation of the Amalgamating Company No. 3 with the Amalgamated Company;

5. Upon merger of Amalgamating Company No.1 with the Amalgamated Company, Amalgamating Company No. 4 which is currently jointly owned by the Amalgamated Company and the Amalgamating Company No.1, will become a wholly owned subsidiary of the Amalgamated Company, hence no further shares of the Amalgamated Company will be issued upon amalgamation of Amalgamating Company No. 4 into and with the Amalgamated Company;

S. Khaitan

The representatives of SBI Capital Markets Limited thereafter confirmed that the proposed share swap ratio involving issue of shares by Amalgamated Company as mentioned in point no. 1 and 3 above are fair from a financial point of view.

2.7 Analysis of provisions pertaining to related party transactions

The Audit Committee reviewed and noted that the proposed Scheme does not fall within the purview of related party transactions in terms of General Circular No. 30/2014 dated 17th July, 2014 issued by the Ministry of Corporate Affairs since the same is subject to the sanction of the National Company Law Tribunal and provisions of Section 188 of the Companies Act, 2013 are not applicable.

Further, there are common promoters in the Amalgamated Company, Amalgamating Company No.1 and Amalgamating Company No.2. Amalgamating Company No.1 holds 34.54% shares of the Amalgamated Company as well as 73.37% shares of Amalgamating Company No.2, and pursuant to the Scheme, equity shares of Amalgamated Company are proposed to be issued and allotted to the shareholders of Amalgamating Company No.1 and Amalgamating Company No.2. In light of the same, the present transaction may be deemed to be a related party transaction under the applicable provisions of Listing Regulations.

The consideration as set forth in the Scheme will be discharged on "arm's length basis". The share exchange ratio for the shares to be allotted to the shareholders of Amalgamating Company No.1 and Amalgamating Company No.2 is based on valuation report provided by Mr. Niranjan Kumar. SBI Capital Markets Limited has also issued a fairness opinion on the share exchange ratio and the share entitlement ratio.

The Fairness Opinion confirmed that the share exchange ratio in the Valuation Report is fair to the Applicant Companies and their respective shareholders and creditors.

Further, M/s. Walker Chandiok & Co. LLP, Chartered Accountant, Statutory Auditors of the Amalgamated Company have confirmed that the accounting treatment as specified in the Scheme is in accordance with applicable Indian Accounting Standards ("Ind AS") issued by The Institute of Chartered Accountants of India and as notified by the Ministry of Corporate Affairs read together with Section 133 and The Companies (Indian Accounting Standards) Rules, 2015 of the Companies Act, 2013.

S. Khaitan

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2.8 **Impact of the Scheme on the Shareholders**

The Audit Committee is of the informed opinion that the proposed Scheme is for the best interests of the Applicant Companies and their respective shareholders and creditors. The impact of the Scheme on the shareholders including the public shareholders would be the same in all respects and no shareholder is expected to have any disproportionate advantage or disadvantage in any manner.

3. **Recommendations of the Audit Committee**

Taking into consideration the Scheme and its rationale and benefits, Valuation Reports, Fairness Opinion, and other documents, as placed, impact of the Scheme on the shareholders and other stakeholders and cost benefit analysis of the Scheme, the Audit Committee after due deliberation unanimously recommends the draft Scheme to the Board of Directors of the Amalgamated Company, Stock Exchange(s), SEBI and other appropriate authorities for their favourable consideration and approval.

By Order of the Audit Committee,
For and on behalf of Audit Committee of Jindal Stainless Limited

S. Khaitan

Suman Jyoti Khaitan
Independent Director
(Chairman of the Committee)
DIN: 00023370

Date: 29th December, 2020
Place: Kolkata