JINDAL STAINLESS

# REPORT OF THE COMMITTEE OF INDEPENDENT DIRECTORS ("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 ("SCHEME").

**MEMBERS PRESENT:**

Mr. Suman Jyoti Khaitan, Independent Director, Chairman of the Committee
Ms. Bhaswati Mukherjee, Independent Director
Mr. Jayaram Easwaran, Independent Director
Mrs. Arti Luniya, Independent Director

## I. BACKGROUND

A meeting of Committee of Independent Directors ("**Committee**") of the Board of Directors of Jindal Stainless Limited ("**the Company**" or "**Amalgamated Company**") was held on 29th December, 2020, to consider and, if thought fit, recommend to the Board of Directors of the Company the draft Composite Scheme of Arrangement ("**Scheme**") amongst Jindal Stainless Limited (the "**Amalgamated Company**"), Jindal Stainless (Hisar) Limited (the "**Amalgamating Company No. 1**"), JSL Lifestyle Limited (the "**Demerged Company**") and (the "**Amalgamating Company No. 2**"), Jindal Lifestyle Limited (the "**Resulting Company**"), JSL Media Limited (the "**Amalgamating Company No. 3**") and Jindal Stainless Corporate Management Services Private Limited (the "**Amalgamating Company No. 4**") (together referred to as the "**Applicant Companies**") and their respective shareholders and creditors. The proposed Scheme will be effective from the Appointed Date (as defined in the Scheme) and operative from the Effective Date (as defined in the Scheme).

The Scheme will be filed with the National Company Law Tribunal, Chandigarh bench ("**NCLT**"), under Sections 230 to 232 read with Section 66 and other applicable provisions of the Companies Act, 2013, and the rules and regulations issued thereunder and also read with Sections 2(1B) and 2(19AA) and the other applicable provisions of the Income Tax Act, 1961, in each case, as amended and the 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 issued by the Securities and Exchange Board of India ("**SEBI**"), as amended from time to time (collectively the "**SEBI Circular**").

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The Scheme is subject to receipt of approvals of board of directors, shareholders and creditors of companies involved and approval of other regulatory authorities as may be required, including those of the National Stock Exchange of India Limited, BSE Limited, Securities and Exchange Board of India and the NCLT.

In terms of the SEBI Circular, a report from the Committee is required recommending the draft Scheme, taking into consideration *inter alia* that the Scheme is not detrimental to the shareholders of the listed entity. This report of the Committee is made in order to comply with the requirements of the SEBI Circular.

The following documents were placed before the Committee:

(a) the draft Scheme;

(b) Valuation Report dated 29th December, 2020, issued by Mr. Niranjan Kumar, Registered Valuer (IBBI Registration No. IBBI/RV/06/2018/10137);

(c) Fairness Opinion dated 29th December, 2020 prepared by SBI Capital Markets Limited, an Independent SEBI registered Category-I Merchant Banker; and

(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.

## II. SALIENT FEATURES OF THE SCHEME

The 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,;

b) Demerger of the Demerged Undertaking (as defined in the Scheme) 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 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) Upon this Scheme becoming effective on the Effective Date, Amalgamating Company No. 1, Amalgamating Company No. 2, Amalgamating Company No. 3 and Amalgamating Company No. 4 shall stand automatically dissolved as an integral part of this Scheme.

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## III. RATIONALE OF THE SCHEME

The Committee members discussed and noted the rationale and the benefits of the proposed Scheme and other key financial and other indicators as mentioned below –

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 are, 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 Amalgamated Company and the Amalgamating Company No. 1 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, 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

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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 (*as defined in the Scheme*) 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 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 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 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 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. Further, the Scheme will enable the synergies that already exist between the Amalgamating Companies and the Amalgamated Company in terms of services and resources to be used optimally for the benefit of their stakeholders.

## IV. VALUATION METHODS EVALUATED FOR THE SHARE EXCHANGE RATIO

The Independent Directors 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;

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

The 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 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

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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 Committee noted the above explanation on valuation methodology and agreed with the recommendation of registered valuer.

The Committee then noted the share exchange ratio as under:

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:

*"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 –

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*"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;

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.

## IV. SCHEME NOT DETRIMENTAL TO THE SHAREHOLDERS OF AMALGAMATED COMPANY.

The Committee members discussed and deliberated upon the rationale and salient features of the Scheme. In light of the same and the valuation report, fairness opinion and other documents presented before the Committee, the Committee is of the informed opinion that the proposed Scheme is in the best interests of the Shareholders of the Amalgamated Company and not detrimental to the interest of the Shareholders, including the minority shareholders of the Amalgamated Company.

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## V. RECOMMENDATIONS OF THE COMMITTEE

The Committee after due deliberations and due consideration of all the terms of the draft Scheme, Valuation report, Fairness Opinion Report and the specific points mentioned above including interest of Shareholders of the Amalgamated Company, recommends the draft Scheme for favourable consideration and approval by the Board, Stock Exchange(s), SEBI and other appropriate authorities.

By Order of the Committee of Independent Directors
**For and on behalf of Committee of Independent Directors of Jindal Stainless Limited**

S. Khaitan
Suman Jyoti Khaitan
Independent Director
(Chairman of the Committee)
DIN: 00023370
Date: 29th December 2020
Place: Kolkata

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