

**Pitti Engineering Limited**

(Formerly Pitti Laminations Limited)

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**REPORT OF THE AUDIT COMMITTEE OF PITTI ENGINEERING LIMITED RECOMMENDING THE DRAFT SCHEME OF AMALGAMATION AMONG PITTI CASTINGS PRIVATE LIMITED ("PCPL" OR "AMALGAMATING COMPANY 1") AND PITTI RAIL AND ENGINEERING COMPONENTS LIMITED ("PRECL" OR "AMALGAMATING COMPANY 2") AND PITTI ENGINEERING LIMITED ("PEL" OR THE "COMPANY" OR THE "AMALGAMATED COMPANY") AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS.**

**Members present:**

<b>Name</b>	<b>Designation</b>
Shri S Thiagarajan	Chairman - Independent Director
Shri Gummalla Vijaya Kumar	Member- Independent Director
Shri N R Ganti	Member- Independent Director

**Special Invitees**

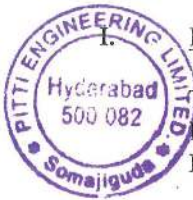
Ms. Gayathri Ramachandran	Independent Director
Shri M Gopalakrishna	Independent Director

**In attendance:**

Shri M Pavan Kumar	Chief Financial Officer
Ms. Mary Monica Braganza	Company Secretary & Compliance Officer

**Other Invitee(s):**

Shri Niranjan Kumar	Niranjan Kumar, Registered Valuer
Shri Parag Ved	SSPA & Co., Registered Valuers
Shri Vitang Shah	SSPA & Co., Registered Valuers
Shri Nipun Lodha	Keynote Financial Services Limited, Merchant Bankers
Ms. Anushri Soni	Keynote Financial Services Limited, Merchant Bankers
Ms. Saloni Khandelwal	Transaction Square LLP, Transaction Advisors
Shri Kunal Singhaniya	Transaction Square LLP, Transaction Advisors
Shri Pranav Kabra	Transaction Square LLP, Transaction Advisors
Shri Samkit Shah	Transaction Square LLP, Transaction Advisors
Shri Amit Shah	Talati & Talati LLP, Statutory Auditor
Shri Akash Pingley	Samvad Partners, Legal Advisor

**INTRODUCTION & BACKGROUND**

The Audit Committee meeting was held on 15<sup>th</sup> June, 2023 to consider and recommend to the Board of Directors of the Company, the draft Scheme of Amalgamation among Pitti Castings Private Limited ("PCPL") and Pitti Rail and Engineering Components Limited ("PRECL") and

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Pitti Engineering Limited ("PEL") and their respective shareholders and creditors (hereinafter referred to as "the Scheme") under Sections 230 to 232 of the Companies Act, 2013 and rules framed thereunder (including any statutory modifications or re-enactments thereof for the time being in force) ("Companies Act" or the "Act") and other applicable laws including the master circular issued by the Securities and Exchange Board of India ("SEBI") Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2021/000000 0665 dated 23<sup>rd</sup> November 2021 (as amended from time to time) ("SEBI Scheme Circular").

PEL is a public limited company incorporated on September 17, 1983, with Corporate Identification Number: L29253TG1983PLC004141 and having its Registered Office at IVth Floor, Padmaja Land Mark 6-3-648/401, Somajiguda, Hyderabad, Telangana, 500082. PEL is engaged in manufacturing of engineering products of iron and steel including electrical steel laminations, stator and rotor core assemblies, sub-assemblies, pole assemblies, die-cast rotors, press tools and high precision machining of various metal components. The equity shares of PEL are listed and traded on BSE Limited ("BSE") and National Stock Exchange of India Limited ("NSE") (BSE and NSE collectively referred to as the "Stock Exchanges").

PCPL is an unlisted private limited company incorporated on December 07, 2011, with Corporate Identification Number U27310TG2011PTC077833 and having its registered office at IV th Floor, Padmaja Land Mark, 6-3-643/401, Somajiguda, Hyderabad, Telangana, 500082. PCPL is engaged in the manufacturing of high quality casting in grey iron, ductile iron, low carbon and alloy steel grades.

PRECL is a public limited company incorporated on October 05, 2020 having its registered office at 6-3-648/401, 4th Floor, Padmaja Landmark, Somajiguda, Hyderabad, Telangana, 500082. PRECL is set up with the object to manufacture engineering products and components.

In terms of the provisions of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), read with the SEBI Scheme Circular, a report from the Audit Committee recommending the draft Scheme is required, taking into consideration, *inter alia*, the Valuation Report (*as defined hereinafter*), and commenting on the need for the Scheme, rationale of the Scheme, synergies of business involved in the Scheme, impact of the Scheme on the shareholders and cost benefit analysis of the Scheme. This Report is made in compliance with the SEBI Scheme Circular.

## II. DOCUMENTS PLACED BEFORE THE AUDIT COMMITTEE

- i. Draft Scheme, duly initialed by the Company Secretary & Compliance Officer of the Company for the purpose of identification.
- ii. Valuation Report dated 15<sup>th</sup> June, 2023 ("Valuation Report") issued jointly by Mr. Niranjan Kumar, Registered Valuer - Securities or Financial Assets (Registered Valuer Registration No. IBBI/RV/06/2018/10137) and SSPA & Co., Chartered Accountants, Registered Valuer - Securities or Financial Assets (Registered Valuer Registration No. IBBI/RV-E/06/2020/126), describing, *inter-alia*, the methodologies adopted by them in arriving at the recommended Share Exchange Ratio (*as defined below*) and setting out its detailed computation for the proposed Scheme.



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- iii. Fairness Opinion dated 15<sup>th</sup> June, 2023 (“Fairness Opinion”) issued by Keynote Financial Services Limited, an Independent SEBI registered Category I Merchant Banker (SEBI Registration No. INM000003606), providing its opinion on the fairness of the Share Exchange Ratio as recommended in the Valuation Report.
- iv. Statutory Auditors Certificate dated 15<sup>th</sup> June, 2023, issued by the Statutory Auditors of the Company i.e. M/s. Talati & Talati LLP, Chartered Accountants, (ICAI Firm Registration Number 110758W/W100377) certifying that the accounting treatment prescribed in the draft Scheme is in conformity with the accounting standards prescribed under Section 133 of the Companies Act.
- v. Audited financial statements of PCPL as on and for the year ended 31<sup>st</sup> March 2023.
- vi. Audited financial statements of PRECL as on and for the year ended 31<sup>st</sup> March 2023.
- vii. Financial, Tax and Legal Due Diligence Reports.

### III. SALIENT FEATURES OF THE SCHEME

The Audit Committee considered and observed the following salient features of the draft Scheme:

- i. The Scheme provides for the amalgamation of PCPL (“Amalgamating Company 1”) and PRECL (“Amalgamating Company 2”) with PEL (“Amalgamated Company”).
- ii. The Scheme shall be effective from 1<sup>st</sup> April 2023, i.e. “Appointed Date”.
- iii. Pursuant to the Scheme, the Company will issue and allot to the equity shareholders of the Amalgamating Company 1 as on the record date, such number of equity shares as determined in the Valuation Report and approved by the Board as per Share Exchange Ratio mentioned below:

*“01 (One) equity share of PEL of INR 05/- each, fully paid-up for every 55 (Fifty-Five) equity shares of PCPL of INR 10/- each, fully paid-up (“Share Exchange Ratio”)”*

The Amalgamating Company 2 is a wholly owned subsidiary of Amalgamated Company. Hence, upon the Scheme becoming effective and amalgamation of Amalgamating Company 2 with Amalgamated Company in terms of this Scheme, all the equity shares issued by Amalgamating Company 2 and held by Amalgamated Company and/ or its nominees shall stand cancelled and extinguished and in lieu thereof, no allotment of any shares in Amalgamated Company shall be made to any person whatsoever.

The equity shares to be issued by the Company to the shareholders of Amalgamating Company 1 on the record date, pursuant to the Scheme, will be listed and admitted to trading on the Stock Exchanges.



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- v. The Company shall follow the accounting treatment for the Scheme as per the applicable method of accounting prescribed under the Indian Accounting Standards notified under Section 133 of the Act read with the applicable rules issued thereunder.
- vi. Upon the Scheme becoming effective, the Amalgamating Company 1 and Amalgamating Company 2 along with all of its assets, liabilities, contracts, employees, records, etc. being its integral part shall stand transferred to the Amalgamated Company subject to the provisions of the Scheme;
- vii. From the Appointed Date and up to the Effective Date (as defined in the Scheme), PCPL and PRECL shall carry on its business and activities with reasonable diligence and business prudence.
- viii. The Scheme will come into effect subject to approval of Stock Exchanges, jurisdictional National Company Law Tribunal ("NCLT"), shareholders, creditors and such other statutory authorities as may be required.

#### **IV. NEED FOR THE AMALGAMTION**

With the objective of allowing PEL to gain access to long-term contracts by bolstering an entire integrated process helping them cover the end-to-end supply chain and to diversify its business and provide access to a new set of customers and industries, the Company has strategically decided to integrate PCPL and PRECL. The vertical integration is expected to enhance the Company's control over the supply and inventory management of its raw materials.

#### **V. RATIONALE OF THE SCHEME**

The Audit Committee noted the rationale of the draft Scheme, which is as follows:

PEL had acquired shares in PCPL originally with an objective to ensure vertical integration of businesses which would provide increased opportunities and better margins to PEL. However, due to operational and financial reasons, PEL could not complete the consolidation historically.

With a view to now achieve vertical integration and broaden its footprint across the supply chain, PEL has strategically decided to integrate the Castings Business with its operations.

PRECL was incorporated for the purpose of undertaking a greenfield project in relation to the manufacture of railway and engineering components. Since PEL (Holding Company) has undertaken the said business through brown field project, there is no longer need of a separate corporate entity.

The amalgamation will result in simplifying the corporate structure and elimination of duplication in administrative cost and multiple record keeping thus resulting in cost savings.



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The implementation of this Scheme will result in the following benefits:

1. Diversification of business with access to a new set of customers (domestic and international) and industries.
2. Strengthening the Company's position as a comprehensive and end-to-end machine components solution provider.
3. Access to new long-term contracts by bolstering an integrated process.
4. The transaction is expected to be EPS accretive for the shareholders.

#### VI. SYNERGIES OF BUSINESS OF THE ENTITIES INVOLVED IN THE SCHEME

Various potential synergies arising from the transaction includes:

- Enhance PEL's control over the supply and inventory management of its raw materials. Amalgamation would help with a unified approach on supply chain management and consequent synergies leading to optimization of resource utilization, reduced finance cost, operational cost, reduced duplication of administrative efforts and better procurement policies and prices, for the combined business.
- Allow PEL to gain access to long-term contracts by bolstering an entire integrated process helping them cover the end-to-end supply chain.
- Enhance PEL's margins and profitability and reduction in related party transactions of PEL which would enhance value for all its stakeholders.
- Help PEL to diversify its business and provide PEL with access to a new set of customers and industries.
- In view of the aforesaid it is desirable and expedient to integrate the business of PCPL by way of amalgamation. Such an amalgamation is expected to be in the best interest of both Companies, their respective shareholders, creditors, employees and other stakeholders.

#### VII. IMPACT OF THE SCHEME ON THE SHAREHOLDERS

The members of the Audit Committee discussed and deliberated upon the rationale and salient features of the Scheme. The Scheme is expected to be beneficial to the shareholders of the Company with the overall theme of vertical integration thereby achieving cost and operational efficiencies. As consideration, equity shares will be issued by the Company to the shareholders of the Amalgamating Company 1 under the Scheme which will result in the dilution of the shareholding of the existing shareholders in the Company. The shareholders of the Company in turn will benefit on account of a) vertical integration of the business and enhanced control over the supply chain; b) enhanced margins and profitability; c) synergies which are expected to accrue to the Company; and d) expected accretion of Earnings Per Share ("EPS")



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The Company will issue and allot equity shares, as fully paid-up to the shareholders of the Amalgamating Company 1 in accordance with the Share Exchange Ratio and in the manner as set out in Paragraph III above, and in accordance with the recommendations in the Valuation Report by valuers. The equity shares to be issued by the Company to the shareholders of the Amalgamating Company 1 pursuant to the Scheme shall rank *pari passu* in all respects with the then existing equity shares of the Company.

Based on the above, the Audit Committee is of the informed opinion that the proposed Scheme is not detrimental to the interest of the shareholders of the Company.

### VIII. COST-BENEFIT ANALYSIS

The Scheme is expected to provide an opportunity to improve the economic value for the Companies involved in the Scheme and their stakeholders pursuant to the vertical integration of the business. This is primarily on account of various cost and operational synergies which are expected to accrue to the Company on account of the Scheme and more particularly detailed out in paragraph V and VI above. While the proposed Scheme would lead to transaction costs relating to its implementation, the benefits of the Scheme outweigh such costs for the Company and its stakeholders.

### IX. OTHER ASPECTS OF THE PROPOSED TRANSACTION

In addition to the Scheme of Amalgamation, the Company shall enter into an Implementation Agreement with the Amalgamating Company 1 and Pitti Electrical Equipment Private Limited (PEEPL) and Promoters containing the following salient terms and conditions:

- i. the Amalgamating Company 1, failing it, the Promoters and Pitti Electrical Equipment Private Limited ("PEEPL") to indemnify, defend and hold harmless the Amalgamated Company, its directors, officers, representatives and employees for any indemnifiable matters provided in such Implementation Agreement
- ii. PEEPL and the Promoters along with their affiliates, to not compete with the Amalgamated Company with respect to the business carried on by the Amalgamating Company 1 for a period of 3 years from the Effective Date.

### X. RECOMMENDATIONS OF THE AUDIT COMMITTEE

The Audit Committee has reviewed the Valuation Report and recommendations made therein. Further, the Fairness Opinion has confirmed that the recommended Share Exchange Ratio in the Valuation Report is fair to the shareholders of the Company.



After due deliberations and taking into consideration all the terms of the draft Scheme, Valuation report, Fairness Opinion, and Certification from Statutory Auditors, need for the Scheme, rationale of the Scheme, synergies of business of PEL, PRECL and PCPL, impact of the Scheme on the shareholders, cost-benefit analysis of the Scheme and other relevant documents placed before the Audit Committee, the Audit Committee recommends the draft Scheme for favorable consideration and approval of the Board of Directors of the Company,

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the Stock Exchanges, the SEBI and other statutory / regulatory authorities including jurisdictional National Company Law Tribunal.

In order for the Company to comply with the requirements of the extant regulations applicable to the listed companies undertaking any scheme of amalgamation under the Companies Act, 2013 and SEBI Scheme Circular, this report of the Audit Committee may please be taken on record by the Board of Directors of the Company while considering the Scheme for approval and further authorization.

**For and behalf of Audit Committee of  
Pitti Engineering Limited**

S Thiagarajan  
Chairman of Audit Committee  
DIN: 02721001

Date: 15<sup>th</sup> June, 2023



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