



PRITIKA INDUSTRIES LIMITED

Regd. Office & Works : C-94, Phase VII, Industrial Focal Point, S.A.S. Nagar (MOHALI)-160 055
CIN : U85100 PB 1997 PLC 038216 Tel. : 0172-5008900, 5008901

REPORT OF THE AUDIT COMMITTEE OF PRITIKA INDUSTRIES LIMITED RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN PRITIKA INDUSTRIES LIMITED (DEMERGED COMPANY) AND PRITIKA AUTO INDUSTRIES LIMITED (RESULTING COMPANY) AND THEIR RESPECTIVE SHAREHOLDERS

PRESENT

Mr. Subramaniam Bala - Chairman
Mr. Harpreet Singh Nibber - Member
Mrs. Neha - Member

In Attendance

Ms. Manmeet Kaur Sihota, Company Secretary

1. **Background**

a. The draft Scheme of Arrangement under section 230-232 of the Companies Act, 2013 ('the Act') and other applicable provisions thereunder, between Pritika Industries Limited (PIL) the Demerged Company and Pritika Auto Industries Limited (PAIL) the Resulting Company and their respective shareholders ('Scheme') has been placed before the Audit Committee by the management of Pritika Industries Limited at the meeting of the Audit Committee held on 14th August, 2021 for it to consider recommending the said draft Scheme to the Board of Directors.

b. The Scheme *inter alia* provides for transferring and vesting of the Demerged Undertaking i.e. Automotive/Tractor/Engineering Components Business undertaking (hereinafter referred to as "Demerged Undertaking") of PIL into PAIL in the manner provided in the Scheme.

c. The equity shares of Pritika Auto Industries Limited are listed on the BSE Limited ('BSE') and the National Stock Exchange of India Limited ("NSE"). Pritika Auto Industries Limited will be filing the Scheme along with necessary documents/information with the abovementioned stock exchanges for obtaining the necessary approvals and no-objection in relation thereto.

d. The report of Audit Committee is made in order to comply with the requirements of the SEBI Circular No. SEBI/HO/CFD/DIL1/CIR/P/2020/215 dated November 3, 2020 read with the SEBI Circular CFD/DIL3/CIR/2017/21 dated March 10, 2017 issued by the Securities and Exchange Board of India, as amended from time to time (consolidated under the circular being



SEBI/HO/CFD/DIL1/CIR/P/ 2020/249 dated December 22, 2020), ("**SEBI Circular**") after considering the following:

- i. Draft Scheme of Arrangement
- ii. Valuation Report of M/S. Payal Gada & Co, Chartered Accountant and Registered Valuer, Mumbai, determining the Report on Share Swap Ratio for issue shares by the Resulting Company (PAIL) to the shareholders of Demerged Company (PIL) pursuant to the Scheme of Arrangement;
- iii. The fairness opinion issued by M/S Systematix Corporate Services Limited Merchant Banker, Mumbai, on the Report of Share Swap Ratio issued by M/S. Payal Gada & Co, Chartered Accountant and Registered Valuer, Mumbai,
- iv. Certificate obtained from M/S. A.K. Sood & Associates Chartered Accountants, the statutory auditors of the company stating that the accounting treatment contained in the scheme is in compliance with all the Accounting Standards specified by the Central Government under Section 133 of the Companies Act, 2013 read with the rules framed there under and the Accounting Standards issued by ICAI, as applicable, and other generally accepted accounting principles;
- v. Audited Financial Statements of Pritika Industries Limited for the year ended 31st March, 2021, 31st March, 2020 and 31st March, 2019
- vi. Audited Financial Statements of Pritika Auto Industries Limited for the year ended 31st March, 2021, 31st March, 2020 and 31st March, 2019
- vii. Division wise audited financial statements of PIL for the year ended 31st March, 2021

2. Proposed Scheme of Arrangement

The Committee reviewed the Scheme of Arrangement and noted the same.

2.1 Need and Rationale of the Scheme of Arrangement

The Audit Committee noted the rationale and need for demerger of the Demerged Undertaking from the Demerged Company into Resulting Company, as provided in the draft scheme of arrangement, and which is reproduced hereunder:

PIL, the Demerged Company is engaged in various businesses and owns the following two business undertakings.

- Automotive/Tractor/Engineering Components Business undertaking
- Healthcare and investment business undertaking.



The Demerged company would demerge Automotive/Tractor/Engineering Components Business undertaking (hereinafter referred to as "Demerged Undertaking") to the Resulting company and it would continue to run and operate the healthcare and investment business undertaking (hereinafter referred to as the "Remaining Business / Retained Undertaking"). The underlying business rationale and objectives are as follows.

a) With the complete integration of the Demerged Undertaking with Resulting Company, the manufacturing and machining capacity of the Resulting Company will stand enhanced. Since, PIL fulfils its raw material supply (i.e., Raw Castings) needs from PAIL, the Demerger would eliminate the inter dependence and shall be a forward integration of manufacturing and machining activities of PAIL which in turn add to efficiency, economy in operations and ultimately add to shareholders wealth.

b) PIL and PAIL are in the same line of business and cater the needs of same customers (i.e. OEMs). The Scheme of Arrangement would consolidate and synchronize the business structure and eliminate the unnecessary competition and conflict of interest within the group which will create transparency and confidence with the investors and the market.

c) The Demerged Company currently has business interest in diverse businesses such as Manufacturing, Healthcare and Investment & Financing activities and other allied activities. With a view to achieve greater management focus in other business activities, Demerged Company proposes to demerge its business interest in the Demerged Undertaking and vest the same in the Resulting Company.

d) The consolidation of operations of the Manufacturing Business of Demerged Company and the Resulting Company by merging the Demerged Undertaking into Resulting Company, will lead to a more efficient utilization of capital, administrative and operational rationalization and promote organizational efficiencies. It will help achieve cost efficiency that will enhance the financial efficiencies and help achieve economies of scale, reduction in overheads and improvement in various other operating parameters.

e) The Demerged undertaking and remaining undertaking have their own set of strengths and dynamics in the form of nature of risks, competition, challenges, opportunities and business methods leading to different growth potentials. Hence segregation of the two undertakings would enable a focused management to explore the potential business opportunities effectively and efficiently.

f) The demerger would result in achieving efficiency in operational process by designing and implementing independent strategies specifically designed for the two businesses and in optimizing profitability. This would in turn enhance the shareholders wealth.



- g) Targeting and attracting new investors with specific focus and expertise in the two businesses thereby providing the necessary funding impetus to the long-term growth strategy of the two businesses.
- h) Integration would result in maximizing overall shareholder value, improving the competitive position and enabling to unlock the economic value of both the entities.
- i) Improved organizational capability and leadership, arising from the pooling of human capital who have the diverse skills, talent and vast experience to compete successfully in an increasingly competitive industry.
- j) Cost savings are expected to flow from more focused operational efforts, rationalization, standardization and simplification of business processes, and the elimination of duplication, and rationalization of administrative expenses.

2.2 Synergies of business of the entities involved in the scheme:

The Committee reviewed the Scheme and noted that the demerger would result in achieving efficiency in operational processes implementation of independent strategies specifically designed for the two businesses and in optimizing profitability. This would in turn allow the Company to focus on this growing business segment in a cost-effective manner.

The Committee also noted that with the transfer of Demerged Undertaking, PAIL would be able to place better focus on such growth and expansion plans of the company.

Thus, the re-structuring is proposed to result into enhanced development and growth of the business of the Company with independent focus on each business segment and more productive utilization of such resources which would be beneficial for all stakeholders.

Further, there are no social or environmental impact of the proposed re-structuring. Except the transaction cost, there are no additional costs involved for the proposed re-structuring.

The Committee is of the opinion that the expected synergies and benefits in pursuance of the re- structuring would offset the impact of such costs for the Company.

2.3 The salient features of the Scheme are as under.

- a) This Scheme of Arrangement is for demerger and vesting of the "Automotive/Tractor/Engineering Components Business Undertaking" of Pritika Industries Limited (PIL) (Demerged Company) as a going concern to Pritika Auto



Industries Limited (PAIL) (Resulting Company) pursuant to Sections 230 to 232 read with other relevant provisions if any of the Companies Act, 2013 and rules made thereunder.

- b) **“Appointed Date”** would mean 1st April, 2021 or such other date as may be fixed or approved by the National Company Law Tribunal, Chandigarh Bench, Chandigarh.
- c) Upon this Scheme becoming effective and with effect from the Appointed Date and pursuant to Sections 230 to 232 and other applicable provisions, if any of the Act and pursuant to the Orders of the Hon'ble NCLT or other Appropriate Authority or forum, if any, sanctioning the Scheme without any further act, instruments, deed, matter and thing, the Demerged Undertaking shall stand demerged and transferred and be vested in the Resulting Company as a going concern, together with all its properties, assets, liabilities, obligations, rights, titles, benefits and interest therein.
- d) Upon the Scheme coming into effect, in consideration of the transfer of the Demerged Undertaking by the Demerged Company to the Resulting Company, in terms of this Scheme, the Resulting Company shall, without any further act or deed, issue and allot to every member of the Demerged Company holding fully paid up equity shares in the Demerged Company and whose names appear in the Register of Members of the Demerged Company on the Demerger Record Date in respect of every 10 (Ten) Equity Shares of the face value of Rs. 10/- (Rupees Ten) each fully paid up held by him / her / it in the Demerged Company, 63 (Sixty-Three) new Equity shares of the Resulting Company of the face value of Rs.2/- (Rupees Two) each fully paid up.
- e) The New Shares allotted and issued in terms of Clause 16 of Part II of the Scheme, shall be listed and/or admitted to trading on the Stock Exchanges after obtaining the requisite approvals.
- f) This Scheme is conditional upon and subject to:
- i. The requisite consents, no-objections and approvals of the Stock Exchanges and SEBI to the Scheme in terms of the SEBI Circular and under Regulation 37 of SEBI(LODR) Regulations, 2015, on terms acceptable to the Demerged Company and the Resulting Company.
 - ii. the Scheme being agreed to by the respective requisite majorities of the various classes of members and creditors of the Demerged Company and the Resulting Company as required under the Act and the requisite order of the National Company Law Tribunal, Chandigarh Bench, Chandigarh being obtained.
 - iii. the Certified copies of the NCLT Order referred to in this Scheme being filed with the Registrar of Companies, Punjab and Chandigarh by the Demerged Company and the Resulting Company.



2.4. Impact of the scheme on the shareholders.

The Impact of the scheme on the shareholders are as under:

- The business of the Demerged Undertaking will supplement the business of PAIL, the Resulting Company and hence the consolidation of the Demerged Undertaking with the business of PAIL is expected to provide benefits as set out in the Scheme
- The shareholders of the Demerged Company as on the Record Date shall be entitled to equity shares in the Resulting Company basis the share entitlement ratio determined by M/S. Payal Gada & Co, Chartered Accountant and Registered Valuer, Mumbai, in the valuation report submitted to this Committee.
- Subsequent to which the shareholders of the Demerged Company will get 63 (Sixty-three) equity shares of PAIL ("Resulting Company") of INR 2/- each fully paid up be issued to equity shareholders of PIL ("Demerged Company"), in addition to, not substitution of, for every 10(ten) equity shares of INR 10/- each fully paid of PIL ("Demerged Company") as consideration for Demerger.
- 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.
- The Scheme will not adversely affect the rights or interest of any shareholder of the Applicant Companies or their respective shareholders or creditors, in any manner whatsoever.

2.5. Cost benefits analysis of the scheme.

The consideration represents a fair value of the Demerged Undertaking, as substantiated by the valuation report and fairness opinion obtained by the Company in relation to the demerger.

All costs, charges, taxes (including but not limited to stamp duty, registration charges, etc.) levies and all other expenses if any on any deed, documents, instruments or Hon'ble NCLT Order arising out of and in carrying out and implementing this scheme and matters incidental to the completion of arrangement in relation to the Demerger shall be borne and paid by the Demerged Company and Resulting Company as mutually agreed upon.

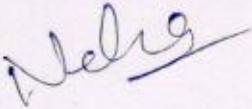
Keeping in view of synergies and the cost benefits expected from the Scheme, the Audit Committee is of the view that the cost incurred towards the implementation of the Scheme is less keeping in mind the long-term benefit that can be derived by achieving strategic and operational synergies envisaged under the Scheme.



3. Recommendation of the Audit Committee

Taking into consideration the draft Scheme, Valuation Report, Fairness Opinion and other documents, as placed, the Audit Committee recommends the draft Scheme to the Board of Directors of the Company for its consideration and approval.

**By Order of the Audit Committee
For and on behalf of Pritika Industries Limited**



**Neha
Member & Independent Director
Audit Committee
DIN: 08109734**



Place: Mohali

Date: *August 14, 2021*