ANNEXURE C
REF. PARA 4

DCM SHRIRAM INDUSTRIES LTD.

DCM SHRIRAM

'KANCHENJUNGA', 18, BARAKHAMBA ROAD, NEW DELHI-110001, INDIA.

REPORT OF THE AUDIT COMMITTEE DATED 14.11.2023 RECOMMENDING THE DRAFT COMPOSITE SCHEME OF ARRANGEMENT

The Audit Committee (AC) has approved and adopted the following report in relation to the Scheme (defined below) on 14.11.2023.

The following members of the Audit Committee were present:

1. Shri P R Khanna, Chairman, Independent Director
2. Shri S B Mathur, Independent Director
3. Shri S C Kumar, Independent Director
4. Shri Madhav B. Shriram, Executive Director
5. Shri Manoj Kumar, Non- Executive Director
6. Smt. V Kavitha Dutt, Independent Director

Background

1. A meeting of audit committee ("**Audit Committee**") of DCM Shriram Industries Limited ("**Company**" / "**DCMSR**") was held on 14.11.2023 *inter-alia*, to consider and if thought fit, recommend to the board of directors (the "**Board**") of DCMSR, the proposed composite scheme of arrangement that *inter alia* seeks: (a) amalgamation of Lily Commercial Private Limited ("**Transferor Company**") into and with DCMSR; and (b) subsequent to this amalgamation, demerger of chemical undertaking of resultant DCMSR ("**Chemical Undertaking**") into DCM Shriram Fine Chemicals Limited ("**Resultant Company 1**") and demerger of rayon undertaking of resultant DCMSR (including defence and engineering projects) ("**Rayon Undertaking**") into DCM Shriram International Limited ("**Resultant Company 2**") (Resultant Company 1 and Resultant Company 2 are hereinafter collectively referred to as the "**Resultant Companies**"), such that post such demergers, the sugar undertaking of resultant DCMSR (including power and alcohol businesses) ("**Residual Undertaking**") will continue in DCMSR, amongst the Transferor Company, DCMSR, Resultant Company 1, Resultant Company 2 and their respective shareholders and creditors (together, the "**Scheme**"), under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013, as amended (the "**Act**") and the Securities and Exchange Board of India master circular dated June 20, 2023 bearing reference no. SEBI/HO/CFD/POD-2/P/CIR/2023/93 ("**SEBI Master Circular**").

2. The draft Scheme will be presented to the jurisdictional National Company Law Tribunal under Section 230 of the Act, the rules and regulations made thereunder and will be in compliance with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended ("**Listing Regulations**") read with the SEBI Master Circular.

Requirements of SEBI Master Circular.

3. The Audit Committee noted that in terms of the SEBI Master Circular, the audit committee of a listed company is required to recommend the draft scheme to the board, after taking into consideration *inter alia*, the valuation report obtained in relation to the draft scheme. In addition, the report of the audit committee is required to comment on: (a) the need for the arrangement; (b) rationale of the scheme; (c) synergies of business of the entities involved in the scheme; (d) impact of the scheme on the shareholders; and (e) the cost benefit analysis of the scheme. This report of the Audit Committee is made in compliance with the SEBI Master Circular. Capitalised terms used but not defined herein shall have the meanings set out in the draft Scheme.

Documents placed before Audit Committee.

4. This report of the Audit Committee is being issued in compliance with the SEBI Master Circular and other provisions of the applicable law. The Audit Committee has made this report after perusing the following documents:

(a) Draft Scheme, initialled by the Chief Financial Officer & Company Secretary, for the purpose of identification.

(b) Copy of the resolution dated 14.11.2023 passed by the Independent Directors Committee of DCMSR along with its report of date recommending the draft Scheme to the Board;

(c) Certificate dated 14.11.2023 issued by B S R & Co. LLP, Chartered Accountants, the statutory auditors of the Company to the effect that the accounting treatment contained in the Scheme is in compliance with all the accounting standards specified by the Central Government under Section 133 and other applicable provisions of the Act or the accounting standards issued by the Institute of Chartered Accountants of India, as applicable, and other generally accepted accounting principles.

(d) Share exchange ratio report dated 14.11.2023 obtained from TRC Corporate Consulting Pvt. Ltd. & Shri Mukesh Chand Jain, Independent Registered Valuer recommending the share exchange ratio for issuance of equity shares by DCMSR to the shareholders of the Transferor Company.

(e) Share entitlement ratio report dated 14.11.2023 obtained from TRC Corporate Consulting Pvt. Ltd. & Shri Mukesh Chand Jain Independent Registered Valuer recommending the share entitlement ratio for issuance of equity shares by the Resultant Company 1 to the shareholders of DCMSR.

(f) Share entitlement ratio report dated 14.11.2023 obtained from TRC Corporate Consulting Pvt. Ltd. & Shri Mukesh Chand Jain, Independent Registered Valuer recommending the share entitlement ratio for issuance of equity shares by the Resultant Company 2 to the shareholders of DCMSR.

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(g) Fairness opinion dated 14.11.2023, on the share exchange and entitlement ratios, as per certificate issued by TRC Corporate Consulting Private Limited & Mukesh Chand Jain by Centrum Capital Limited, Merchant Bankers;

(h) Report of the Independent Directors' Committee pursuant to SEBI Master Circular dated 20.06.2023 recommending the draft Scheme taking into consideration inter alia that the Scheme is not detrimental to the shareholders of the company.

(i) Audited financial statements of the Company for last 3 financial years.

(j) Unaudited financial results of the Company for the quarter and half year ended September 30, 2023 with the limited review report of the auditor.

Need for and rationale of the draft Scheme

5. The Audit Committee noted that the draft Scheme is being proposed with the following objectives and rationale:

(a) greater management focus on each business vertical (being Chemical Undertaking, Rayon Undertaking and Residual Undertaking);

(b) better administrative efficiency;

(c) operational rationalisation, organisational efficiency and optimum utilisation of resources;

(d) focused approach to respective line/stream of business;

(e) ability to leverage financial and operational resources for each business;

(f) allows shareholder to have a choice of investment in some and not all the businesses;

(g) better price discovery as performance of each business can be evaluated and projected without counter balancing of other businesses;

(h) unlocking shareholder value and opportunity for the public shareholders to exploit the individual potential of DCMSR and each of the Resultant Companies, pursuing options of independent joint ventures, collaborations on a sectoral basis i.e., separate ventures for Residual Undertaking, Chemical Undertaking and Rayon Undertaking and creating a strong and distinctive platform with more focused management teams, which will enable greater flexibility to pursue long term objectives and independent business strategies;

(i) providing scope for independent growth, collaboration and expansion of the 3 (three) segregated business verticals (Rayon Undertaking, Chemical Undertaking and Residual Undertaking), including for enhancing their valuations and efficient capital allocation;

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(j) provide diversity in decisions regarding use of cash flows and exploring various opportunities;

(k) allowing the Chemical Undertaking, the Rayon Undertaking and the Residual Undertaking, which are independent, self-sufficient and standalone undertakings (with no critical business inter-dependencies), to continue to function with efficiency and efficacy, and synergies with a seamless transition;

(l) facilitating succession planning in the future in an orderly and strategic manner, without any business disruption, which is key to secure the long-term stability, leadership, transparency and operational clarity of DCMSR and the Resultant Companies; and

(m) streamlining promoter shareholding of DCMSR by eliminating shareholding tiers and simplification of promoter shareholding into a clear structure directly identifiable with the promoters; focused management and direct commitment, attention and long term stable leadership to chemical, rayon and sugar businesses of DCMSR, comprising the Chemical Undertaking, the Rayon Undertaking and the Residual Undertaking, respectively.

Key features of the draft Scheme

6. The salient features of the draft Scheme are as under:

(a) The draft Scheme provides for (a) amalgamation of Lily Commercial Private Limited (i.e., Transferor Company) into and with DCMSR; and (b) subsequent to this amalgamation, demerger of chemical undertaking of resultant DCMSR (i.e., Chemical Undertaking) into DCM Shriram Fine Chemicals Limited (i.e., Resultant Company 1) and demerger of rayon undertaking of resultant DCMSR (including defence and engineering projects) (i.e., Rayon Undertaking) into DCM Shriram International Limited (i.e., Resultant Company 2), with the sugar undertaking of resultant DCMSR (including power and alcohol businesses) (i.e. the Residual Undertaking) continuing with DCMSR, post such demergers.

(b) The Appointed Date (*as defined in the Scheme*) under the Scheme is April 1, 2023.

(c) Upon the Scheme becoming effective and with effect from the Appointed Date, all the assets and liabilities and the entire business of the Transferor Company shall stand transferred to and vest in DCMSR, as a going concern. The Transferor Company shall stand dissolved without being wound-up, without any further act or deed.

(d) Upon the Scheme becoming effective, the shareholders of the Transferor Company shall, without any application, act or deed, be entitled to receive 1 equity share of the face value of Rs. 2 each, at par, credited as fully paid up, in DCMSR for every 1 (one) equity share

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of face value of Rs. 2 each held by the Transferor Company in DCMSR, in the proportion of their respective shareholding in the Transferor Company, as on the Record Date (as defined in the Scheme).

(e) Upon the Scheme becoming effective, investment of the Transferor Company in DCMSR, being shares held in DCMSR, either in its own name or through its nominee(s), shall stand cancelled in entirety, without any further act, instrument or deed.

(f) With effect from the Appointed Date and upon the Scheme becoming effective, all the assets and liabilities and the entire business of the Chemical Undertaking, shall stand transferred to and vest in the Resultant Company 1, as a going concern.

(g) With effect from the Appointed Date and upon the Scheme becoming effective, all the assets and liabilities and the entire business of the Rayon Undertaking, shall stand transferred to and vest in the Resultant Company 2, as a going concern, without any further act or deed.

(h) Upon the Scheme becoming effective, Resultant Company 1 shall, without any further act or deed, issue and allot to the shareholders of DCMSR whose name is recorded in the register of members of the DCMSR on the Record Date, equity shares of the Resultant Company 1 in the ratio of 1:1 i.e., 1 fully paid-up equity share having a face value of Rs. 2 each of the Resultant Company 1 for every 1 fully paid-up equity share having a face value of Rs. 2 each of DCMSR, each equity share being fully paid-up.

(i) Upon the Scheme becoming effective, the equity shares of the Resultant Company 1 held by DCMSR and its nominees will stand cancelled on or after the Effective Date (as defined in the Scheme) by operation of law, without payment of any consideration or any further act or deed.

(j) Upon the Scheme becoming effective, Resultant Company 2 shall, without any further act or deed, issue and allot to the shareholders of DCMSR whose name is recorded in the register of members of DCMSR on the Record Date, equity shares of the Resultant Company 2 in the ratio of 1:1 i.e., 1 fully paid-up equity share having a face value of Rs. 2 each of the Resultant Company 2 for every 1 fully paid-up equity share having a face value of Rs. 2 each of DCMSR, each equity share being fully paid-up.

(k) Upon the Scheme becoming effective, the equity shares of the Resultant Company 2 held by DCMSR and its nominees will stand cancelled on or after the Effective Date by operation of law, without payment of any consideration or any further act or deed.

(l) Upon the Scheme becoming effective, (i) the respective carrying values, of the assets, liabilities and identified reserves of the Chemical Undertaking, as at the close of business on the day immediately preceding the Appointed Date, shall be reduced from the books of accounts of DCMSR; (ii) the investment of DCMSR in the Resultant Company 1 as

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appearing in its books of accounts shall be cancelled; and (iii) the difference of the above, shall be recorded in the books of DCMSR as capital reserve (if credit) and should be presented separately from other capital reserves, or revenue reserves (if debit) and if there are no reserves or inadequate reserves, to an amalgamation deficit reserve (if debit), with disclosure of its nature and purpose in the notes to the financial statements.

(m) Upon the Scheme becoming effective, (i) the respective carrying values, of the assets, liabilities and identified reserves of the Rayon Undertaking, as at the close of business on the day immediately preceding the Appointed Date, shall be reduced from the books of accounts of DCMSR; (ii) the investment of DCMSR in the Resultant Company 2 as appearing in its books of accounts shall be cancelled; and (iii) the difference of the above, shall be recorded in the books of DCMSR as capital reserve (if credit) and should be presented separately from other capital reserves, or revenue reserves (if debit) and if there are no reserves or inadequate reserves, to an amalgamation deficit reserve (if debit), with disclosure of its nature and purpose in the notes to the financial statements.

Synergies of business of the entities involved in the Scheme.

7. Following synergies of business are involved:

(a) The demerger will provide scope and opportunities for pursuing independent growth and collaboration and expansion of the 3 (three) segregated business verticals (Rayon Undertaking, Chemical Undertaking and Residual Undertaking) for enhancing their valuations.

(b) Since such business verticals (Rayon Undertaking, Chemical Undertaking and Residual Undertaking) are independent and self-sufficient (with no critical business inter-dependencies), transition will be smooth and seamless and will continue to function efficiently with efficiency, efficacy and synergies post the demerger and segregation.

(c) By unlocking value, the option of independent joint ventures, collaborations on a sectoral basis are made possible, i.e., separate ventures for Residual Undertaking, Chemical Undertaking and Rayon Undertaking, and the segregation will allow each of DCMSR, Resultant Company 1 and Resultant Company 2 to create a strong and distinctive platform with more focused business and management teams, which will enable greater flexibility to pursue long term objectives and independent business strategies.

(d) This is critical as modern investors and collaborators do insist on value growth without diffusion of their investments into multiple businesses, and the same will also provide diversity in decisions regarding use of cash flows and exploring various opportunities for separate businesses. The past examples have shown that in business restructuring, the sum of parts is greater than the whole.

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(e) Since the promoter family is moving closer to a generational shift, this Scheme will facilitate succession planning in an orderly and strategic manner, without any business disruption, which is key to secure the long-term stability, leadership, transparency and operational clarity of DCMSR and the Resultant Companies.

(f) Further, the amalgamation of the Transferor Company with DCMSR and the demergers shall provide the family members constituting the 'promoter and promoter group' of DCMSR to have direct holding of shares of DCMSR and consequently, the Resultant Companies (instead through investment company(ies)) so that they can take independent decision on their respective shareholdings in each entity.

Costs benefit analysis of the Scheme.

8. After a careful evaluation of the proposed draft Scheme, the Company believes that the proposed Scheme will result in enhanced shareholder value and unlock the growth potential of the 3 businesses (i.e., Residual Undertaking, Chemical Undertaking and Rayon Undertaking) in the most efficient manner. This is critical as modern investors and collaborators do insist on value growth without diffusion of their investments into multiple businesses, and the same will also provide diversity in decisions regarding use of cash flows and exploring various opportunities for separate businesses.

9. In terms of cost implications, the Restructuring and Reorganisation Committee has examined the cost of implementation of various other re-structuring options in its meeting held on August 14, 2023 and has after deliberations discarded such options in favour of the present option in relation to the composite scheme of arrangement.

View of the Audit Committee and impact of Scheme on the Shareholders.

10. The proposal to undertake the Scheme amongst the Transferor Company, DCMSR, Resultant Company 1, Resultant Company 2 and their respective shareholders and creditors under Sections 230-232 of the Act, and in compliance with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the SEBI Master Circular was placed before the Audit Committee at its meeting on 14.11.2023. The Audit Committee was informed that under the draft Scheme, it is proposed to: (a) amalgamate the Transferor Company into DCMSR; (b) subsequent to this amalgamation, demerge the Chemical Undertaking into Resultant Company 1 and demerge the Rayon Undertaking into Resultant Company 2, such that post such demergers, the Residual Undertaking will continue in DCMSR.-

11. The Audit Committee noted the background, salient features, rationale and the benefits to the Company and its shareholders, as set out above, of the draft Scheme as placed before it.

12. In view of the fact that the execution of the Scheme would be in the best interests of the Company, the Resultant Companies and their respective shareholders and creditors on account of the proposed demerger unlocking shareholder value, the Audit Committee after due deliberations and due consideration of all the terms of the draft Scheme and other documents

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presented before the Audit Committee, hereby unanimously notes and is of the opinion that the Scheme is not detrimental to the interests of the Company and its shareholders.

Recommendation of the Audit Committee.

13. The Audit Committee after due deliberations and due consideration of the share exchange ratio reports, the fairness opinion, all the terms of the draft Scheme, rationale of the Scheme, impact of Scheme on the shareholders of the Company and other documents presented before the Audit Committee, recommends the draft Scheme for favourable consideration of the Board of the Company, BSE Limited, the National Stock Exchange of India Limited, Securities and Exchange Board of India and other appropriate authorities.

14. This report of the Audit Committee is made in compliance with the SEBI Master Circular after considering the necessary documents that are applicable in context of the draft Scheme.

P.R. Khanna
Chairperson

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Audit Committee of DCM Shriram Industries Limited

Date: 14.11.2023 **Place:** New Delhi

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