

**REPORT OF THE AUDIT COMMITTEE (“COMMITTEE”) OF BAJAJ ELECTRICALS LIMITED ON THE DRAFT SCHEME OF ARRANGEMENT BETWEEN BAJAJ ELECTRICALS LIMITED AND BAJEL PROJECTS LIMITED AND THEIR RESPECTIVE SHAREHOLDERS**

**This Report of the Audit Committee is considered and approved by the Committee in its meeting held on February 8, 2022.**

**Members Present:**

Mr. Shailesh Haribhakti : Chairman of the Audit Committee  
Dr. (Mrs.) Indu Shahani : Member  
Dr. Rajendra Prasad Singh : Member

**Convener:**

Mr. Ajay Nagle : Head of Department – Legal (and Company Secretary)

**1. Background:**

- 1.1. The proposal to consider and recommend the draft Scheme of Arrangement between Bajaj Electricals Limited (“**Demerged Company**” or “**Company**” or “**BEL**”) and Bajel Projects Limited (“**Resulting Company**” or “**BPL**”) and their respective shareholders (the “**Scheme**” / “**Demerger**”) was presented to and considered by the members of the Committee at its Meeting held on Tuesday, February 8, 2022 at 09.45 a.m. through electronic mode.
- 1.2. The Demerged Company is a public listed company incorporated under the provisions of the Indian Companies Act, 1913, and deemed to exist within the purview of the Companies Act, 2013, bearing the corporate identification number (CIN) L31500MH1938PLC009887. It is engaged in (a) Consumer Product segment (‘CP’) (which includes appliances, fan and consumer lighting products) and (b) Engineering Procurement and Construction segment (‘EPC’) (which includes Power Transmission and Power Distribution and Illumination Projects).
- 1.3. The Resulting Company is a public company incorporated under the provisions of the Companies Act, 2013 bearing the CIN U31900MH2022PLC375133. The main object of the Resulting Company *inter-alia* is to carry out power transmission and power distribution business. Presently, the 100% share capital of the Resulting Company is legally and beneficially held by the Demerged Company along with its nominees. However, once the Scheme is effective, the Resulting Company will have a replica/mirror shareholding of the Demerged Company and thereafter it shall function as an independent listed company.
- 1.4. BEL and BPL collectively be referred to as the “**Companies**”.
- 1.5. The equity shares of the Company are listed on BSE Limited (“**BSE**”) and the National Stock Exchange of India Limited (“**NSE**”, and together with BSE, “**Stock Exchanges**”). The Company will be filing the Scheme along with necessary information/documents with the Stock Exchanges.
- 1.6. The Report of the Committee is made in order to comply with the requirements of the Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021 (“**SEBI Circular**”), as issued by the Securities and Exchange Board of India (“**SEBI**”), read with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**SEBI Listing Regulations**”), after considering the following:



- 1.6.1. Draft Scheme;
- 1.6.2. Valuation report dated February 8, 2022, issued by Messrs RBSA Valuation Advisors LLP (RVE No.: IBBI/RV-E/05/2019/110), being registered valuer appointed for the purpose of the Scheme ("**Valuation Report**");
- 1.6.3. Fairness opinion report dated February 8, 2022 issued by Dalmia Securities Private Limited, Category I SEBI Registered Independent Merchant Banker (Reg. No. INM000011476) providing the fairness opinion on the share entitlement recommended in the Valuation Report ("**Fairness Opinion**");
- 1.6.4. Certificate dated February 8, 2022 obtained from the Statutory Auditors of the Company i.e. S R B C & CO LLP, Chartered Accountants (FRN: 324982E/E300003) to the effect that the Scheme is in compliance with applicable Accounting Standards specified by the Central Government under Section 133 of the Companies Act, 2013 ("**Statutory Auditors Certificate**"); and
- 1.6.5. Undertaking with regard to the non-applicability of requirement as prescribed in terms of Para 10 of the SEBI Circular in respect of the Scheme (i.e., the approval only by public shareholders), duly certified by the statutory auditors of the Company, since no allotment is proposed to be made to any of the persons mentioned therein pursuant to the proposed Scheme.

## **2. Proposed Scheme:**

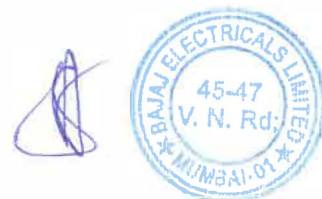
- 2.1. The Scheme provides for transfer by way of demerger of the Demerged Undertaking (*as defined in the Scheme*) of the Demerged Company into the Resulting Company and consequent issue of New Equity Shares (*as defined in the Scheme*) by the Resulting Company to the shareholders of the Demerged Company in accordance with the provisions of Sections 230 to 232 of the Companies Act, 2013 and other applicable provisions, if any.

### **2.2. Consideration/Share Exchange Ratio:**

In terms of the Scheme and based on Valuation Report and Fairness Opinion, following would be the share entitlement ratio:

*"1 equity share of the face value of INR 2 each fully paid-up of the Resulting Company shall be issued and allotted for every 1 equity share of face value INR 2 each fully paid up held by equity shareholders of the Demerged Company."*

- 2.3. The "Appointed Date" for the Scheme means opening of business hours on 1st day of April, 2022.
- 2.4. The "Effective Date" for the Scheme means the day on which last of the conditions specified in Clause 24.1 (Conditionality of the Scheme / Conditions Precedent) of the Scheme are complied with.
- 2.5. The Scheme would be subject to the sanction or approval of the Hon'ble National Company Law Tribunal, SEBI, Stock Exchanges, shareholders, creditors and other Appropriate Authorities (*as defined in the Scheme*).



**3. Rationale / Need for demerger of the Demerged Undertaking into the Resulting Company:**

**III. RATIONALE OF THE SCHEME**

*(a) The Demerged Company has 2 (two) distinct business segments viz. (i) Consumer Product segment ('CP') (which includes appliances, fan and consumer lighting products) and (ii) Engineering Procurement and Construction segment ('EPC'). The EPC segment primarily focuses on Illumination Business and Power Transmission and Power Distribution Business.*

*(b) Illumination Business which is a part of EPC segment is more synergistic to CP segment and its risk and rewards are also aligned to that of CP segment.*

*(c) The nature of risk, competition, challenges, opportunities and business methods for the Power Transmission and Power Distribution Business (as defined hereinafter) is separate and distinct from the Remaining Business (as defined hereinafter) carried out by the Demerged Company. Further, the way the Power Transmission and Power Distribution Business is required to be handled and managed is not similar to that of the Remaining Business.*

*(d) Each of the varied businesses carried out by the Demerged Company have significant potential for growth and profitability and can attract different set of investors, strategic partners, lenders, etc. Therefore, as these businesses approach their next phase of growth, it would be strategically apt to segregate the Power Transmission and Power Distribution Business from the Remaining Business.*

*(e) The segregation shall enable them to move forward independently, with greater focus and specialization, building on their respective capabilities and their strong brand presence. It will also help to channelize resources required for all the businesses to focus on the growing businesses and attracting right talent and providing enhanced growth opportunities to existing talent in line with a sharper strategic focus on each business segment under separate entities.*

*(f) The Scheme will also enable the Demerged Company and the Resulting Company to focus and enhance its respective businesses by streamlining operations and its management structure ensuring better and more efficient management control.*

*(g) Bifurcation of these businesses will enable unlocking value of each vertical thereby paving way for focused growth with a view to create significant stakeholder value and at the same time allow investors to allocate their portfolio into separate entities, focused on the distinct entities. Further, it will enable independent and distinct capital allocation approach and balance sheet management based on the distinct needs of each business.*

*(h) Thus, the demerger would help in achieving the desired operating structure and shall inter-alia have following benefits:*

- (i) Create sector focused companies;*
- (ii) Streamline the management structure;*
- (iii) Unlock value for shareholders;*
- (iv) Ring-fence businesses from each other; and*
- (v) Better risk management.*



#### **4. Synergies**

- 4.1. Considering the varied nature and potential opportunities of each of the business segments and the need for a focused approach to unlock these opportunities, it is now considered expedient to demerge the Power Transmission and Power Distribution Business (*as defined in the Scheme*) of the Demerged Company.
- 4.2. The said Demerger would enable the Resulting Company to enhance operational efficiencies, ensuing synergies through pooling of the financial, managerial, personnel capabilities, skills and expertise and the management is of the view that said Demerger would help the Companies in:
  - 4.2.1. Streamlining of the business structure to enhance market positions and deliver long term growth;
  - 4.2.2. Unlocking the economic value of each of the businesses;
  - 4.2.3. Greater focus and attention through two separate Companies each having its own administrative set up along with independent management and strategic decision-making powers; and
  - 4.2.4. Tailored capital structure and capital allocation policies based on business-specific dynamics.
- 4.3. To unlock the value of Power Transmission and Power Distribution Business, it is considered appropriate to separate it and keep it in an independent listed entity. Further, the said Demerger will lead to benefits as explained in clause 3 above.

#### **5. Impact of the Scheme on the shareholders of the Company**

The Committee reviewed the draft Scheme, Valuation Report, Fairness Opinion and Statutory Auditors Certificate and noted the same and recommended the following:

- 5.1 Upon the Scheme becoming effective, all properties, pre-qualifications, rights and powers and all debts, liabilities, duties and obligations and such other ventures including ancillary and support services in relation to the Demerged Undertaking shall be transferred to the Resulting Company on a going concern basis.
- 5.2 Further, pursuant to the Scheme, in consideration for the Demerger, the Resulting Company will issue its equity shares to the shareholders of the Demerged Company based on the Valuation Report and in the same proportion in which the shareholders hold the shares in the Demerged Company. The overall economic interest of the equity shareholders of the Demerged Company shall remain the same in both the Companies.
- 5.3 The provisions of this Scheme have also been drawn up to comply with the conditions relating to "Demerger" as defined under section 2(19AA) of the Income Tax Act, 1961 and therefore, it may not have any tax implications.
- 5.4 Based on the above and as there is no proposed change in the shareholding pattern of the Company pursuant to the Scheme, the Committee is of the informed opinion that the proposed Scheme is in the best interests of the shareholders of the Company and not detrimental to the interest of the shareholders, including the minority shareholders of the Company.



5.5 Further, the Fairness Opinion confirmed that the share entitlement in the Valuation Report is fair to the Demerged Company, the Resulting Company and their respective shareholders.

**6. Cost benefit analysis of the Scheme**

The Committee is of the opinion that the expected benefits of the Demerger/Scheme, as described hereinabove, which are not quantifiable, would offset the impact of transaction costs.

**7. Recommendations of the Audit Committee:**

The Committee, after due deliberations and consideration of all the terms of the draft Scheme, Valuation Report, Fairness Opinion, and the specific points mentioned above recommends the draft Scheme for favourable consideration by the Board of Directors of the Company, the BSE, the NSE, and SEBI.

This Report of the Committee is made after considering the necessary documents and the same shall be treated as compliance under the applicable provisions of the SEBI Listing Regulations, SEBI Circular and other applicable provisions, if any. The Committee is entitled to make relevant modifications to this Report, if required, and such modifications or amendments shall be deemed to form part of this Report.

**For Audit Committee of  
Bajaj Electricals Limited**



**Shailesh Haribhakti  
Chairman of the Committee  
DIN: 00007347**



**Date: February 8, 2022**

**Place: Mumbai**