



**REPORT OF AUDIT COMMITTEE OF ESCORTS LIMITED (“THE COMPANY”) RECOMMENDING REDUCTION OF CAPITAL OF COMPANY AND SCHEME TO THAT EFFECT, AT THE MEETING HELD ON FEBRUARY 18, 2022.**

**Members Present:**

Mr. P.H. Ravikumar - Chairman

Mr. Hardeep Singh - Member

Dr. Sutanu Behuria - Member

**1 Background**

A meeting of the Audit Committee of Escorts Limited (“**Company**”) was held on February 18, 2022, to *inter alia*, consider and recommend the scheme for reduction of 2,14,42,343 (Two Crore Fourteen Lakhs Forty Two Thousand Three Hundred and Forty Three) equity shares of face value INR 10 (Indian Rupees Ten) per equity share of the Company held by Escorts Benefit and Welfare Trust (“**EBWT**”) from the share capital of the Company, with a value of investment aggregating to INR 198,04,23,438 (Indian Rupees One Hundred and Ninety Eight Crore Four Lakh Twenty Three Thousand Four Hundred and Thirty Eight), without payment of any consideration to EBWT, and making corresponding adjustments by way of debit to: (i) the outstanding paid-up equity share capital for INR 21,44,23,430 (Indian Rupees Twenty One Crore Forty Four Lakh Twenty Three Thousand Four Hundred and Thirty); and (ii) the securities premium account of the Company for INR 176,60,00,008 (Indian Rupees One Hundred and Seventy Six Crore Sixty Lakh and Eight) (“**Scheme**”), to be implemented under Section 66 read with Section 52 of the Companies Act, 2013 (“**Act**”) and other applicable provisions of the Act and the rules thereof, including any amendments thereof, as applicable.

This report of the Audit Committee is made in compliance with the requirement of the Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017, read with SEBI Master Circular no. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021, on scheme of arrangements by listed entities (“**SEBI Circular**”) issued by the Securities Exchange and Board of India (“**SEBI**”).

The following documents were placed before the Audit Committee:

1. Draft Scheme of capital reduction, duly initialed by the Company Secretary of the Company for the purpose of identification;
2. Valuation report dated February 18, 2022 prepared and issued by Niranjana Kumar, Registered valuer (the “**Valuation Report**”);
3. Fairness opinion dated February 18, 2022 prepared by Fedex Securities Private Limited, a SEBI registered merchant banker, providing an opinion on the fairness of the Valuation Report (“**Fairness Opinion**”); and

**ESCORTS LIMITED**

15/5, Mathura Road, Faridabad - 121 003, India

Tel.: +91-129-2250222 Fax: +91-129-2250023

E-mail: [escortsgroup@escorts.co.in](mailto:escortsgroup@escorts.co.in) Website: [www.escortsgroup.com](http://www.escortsgroup.com)

Corporate Identification Number L74899HR1944PLC039088

Registered Office: 15/5, Mathura Road, Faridabad - 121 003, (Haryana), India

4. A certificate from the statutory auditors of the Company, M/s Walker Chandiook & Co LLP, Chartered Accountants, confirming that the proposed accounting treatment in the books of the Company relating to the reduction of share capital of the Company as set out in Clause 8 of the draft Scheme is outside the purview of the applicable accounting standards specified under Section 133 of the Companies Act, 2013. In the absence of specific guidance for accounting of transactions relating to the reduction of share capital, the accounting treatment under Clause 8 of the draft Scheme is construed to be in conformity with other generally accepted accounting principles in India (“**Auditors’ Certificate**”).

## 2 Rationale of the proposed Scheme of Arrangement:

The Audit Committee noted the rationale of the proposed reduction of capital of the Company as stated in the draft Scheme placed before this Committee, which included the following:

- The proposed reduction of the equity share capital of the Company is being undertaken in accordance with the provisions of Section 66 read with Section 52 of the Act and the rules made thereunder and specifically, the National Company Law Tribunal (Procedure for Reduction of Share Capital of Company) Rules, 2016, which permit a company to undertake a reduction of its share capital in any manner, read with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the SEBI Circular.
- Pursuant to the orders dated August 9, 2012, and September 5, 2012, the High Court of Punjab and Haryana had approved the scheme of arrangement and amalgamation of Escorts Construction Equipment Limited, Escotrac Finance and Investment Private Limited, Escorts Finance Investments and Leasing Private Limited with the Company (“**2012 Scheme**”).
- Upon effectiveness of the 2012 Scheme, *inter alia*, 3,73,00,031 (Three Crore Seventy Three Lakh and Thirty One) equity shares of face value INR 10 (Indian Rupees Ten) per equity share of the Company were issued / vested with EBWT for the sole benefit of the Company and its successors in interest.
- Subsequently, by way of an order dated December 23, 2021, the National Company Law Tribunal, Chandigarh bench (“**NCLT**”), approved the cancellation of 1,22,57,688 (One Crore Twenty Two Lakhs Fifty Seven Thousand Six Hundred and Eighty Eight) fully paid-up equity shares of INR 10 (Indian Rupees Ten) each of the Company held by EBWT (“**First Capital Reduction**”). The First Capital Reduction was made effective by the Company on December 27, 2021.
- As on the date of this report, EBWT holds 2,14,42,343 (Two Crore Fourteen Lakhs Forty-Two Thousand Three Hundred and Forty-Three) equity shares of the Company through its trustee, namely, Dr. Sutanu Behuria, amounting to 16.25% (Sixteen Point Twenty Five percent) of the total issued and paid-up share capital of the Company (“**Trust Shares**”).
- The board of directors of the Company (“**Board**”), in its meeting held on November 18, 2021, *inter alia*, decided to consider and evaluate the feasibility of reduction of the share capital of the Company by cancelling and extinguishing 2,14,42,343 (Two Crore Fourteen Lakhs Forty Two Thousand Three Hundred and Forty Three) equity shares of the Company held by EBWT, without payment of any consideration to EBWT.

- The Board in its meeting held on November 18, 2021 also approved preferential issue of 93,63,726 (Ninety Three Lakhs Sixty Three Thousand and Seven Hundred Twenty Six) equity shares of the Company of the face value of INR 10/- (Indian Rupees Ten only) each at an issue price of INR 2,000 (Indian Rupees Two Thousand only) each keeping in view the future outlook of the Company, its growth targets and prospects, and additional funding requirements. Following the allotment of said shares to Kubota Corporation, the Company will be adequately capitalized towards achieving its business objectives.
- Amongst others, the objectives of EBWT, which holds equity shares of the Company, were: (i) to hold the trust funds exclusively for the benefit of the beneficiary (i.e., the Company) and sell the shares in accordance with the provisions of the trust deed dated February 14, 2012, read with amended trust deed dated March 20, 2020, and amended trust deed dated May 13, 2020 (“**EBWT Trust Deed**”), and the applicable provisions of the Act; (ii) forthwith remit the proceeds to the Company; and (iii) undertake such other incidental and ancillary activities in a manner as provided for under the EBWT Trust Deed. Over a period of time, EBWT, acting through its trustees and in accordance with the EBWT Trust deed, has sold certain shares and later consented to the First Capital Reduction, which was implemented by the Company.
- The proposed reduction of the equity share capital of the Company would not have any adverse effect on the creditors of the Company or the Company’s ability to fulfil its commitments or meet its obligations in the ordinary course of business as there is no payout resulting from the proposed capital reduction. Further, the proposed capital reduction shall result in an increase in proportionate shareholding of other shareholders of the Company, including public shareholders.

### 3 The salient features of the Scheme are as follows:


- The Scheme provides for -
  - a. Cancellation and extinguishment of 2,14,42,343 (Two Crores Fourteen Lakhs Forty Two Thousand Three Hundred and Forty Three) fully paid-up equity shares of INR 10 (Indian Rupees Ten) each of the Company held by EBWT for the sole benefit of the Company without payment of any consideration to EBWT.
  - b. Upon the Scheme becoming effective, investment, aggregating to the value of investment representing 2,14,42,343 (Two Crore Fourteen Lakhs Forty Two Thousand Three Hundred and Forty Three) equity shares of the Company recorded as a non-current investment in the books of the Company as ‘Sole beneficiary interest in Escorts Benefit and Welfare Trust’ i.e., INR 198,04,23,438 (Indian Rupees One Hundred and Ninety Eight Crore Four Lakh Twenty Three Thousand Four Hundred and Thirty Eight) shall be cancelled, with corresponding adjustments by way of debit to: (i) the outstanding paid-up equity share capital for INR 21,44,23,430 (Indian Rupees Twenty One Crore Forty Four Lakh Twenty Three Thousand Four Hundred and Thirty); and (ii) the securities premium account of the Company for INR 176,60,00,008 (Indian Rupees One Hundred and Seventy Six Crore Sixty Lakh and Eight), in compliance with the generally accepted accounting principles in India.
- The Scheme shall be effective from the date on which the certified copy of the order passed by the NCLT sanctioning the Scheme and minute of reduction is filed with the Registrar of Companies, National Capital Territory of Delhi and Haryana (“**RoC**”).

- This Scheme is and shall be conditional upon and subject to:
  - a. the Scheme being approved by the Board and the members of the Company through special resolution and provided that the votes cast by the public shareholders in favour of the Scheme are more than the number of votes cast by the public shareholders against it through e-voting in terms of the SEBI Circular;
  - b. the Scheme being approved by the creditors of the Company as prescribed under the Act and/or as may be directed by NCLT and/or any other appropriate authority as may be applicable;
  - c. the Company obtaining the observation letter / no-objection letter from the relevant stock exchanges for the implementation of the Scheme;
  - d. the Scheme being sanctioned by NCLT under Section 66 and any other applicable provision of the Act;
  - e. certified copy of the order of NCLT sanctioning the Scheme and the minute of reduction being filed with the RoC by the Company; and
  - f. the requisite, consent, approval or permission of the Central Government or any other statutory or regulatory authority, if any, which by law may be necessary for the implementation of the Scheme.
- The Audit Committee reviewed and noted that –
  - a. The Fairness Opinion confirmed the fairness of the Valuation Report;
  - b. The Scheme does not envisage any payment to EBWT against cancellation of their fully paid-up equity shares in the Company;
  - c. Upon effectiveness of the Scheme, the paid-up equity share capital of the Company shall become INR 110,49,82,610 (Indian Rupees One Hundred and Ten Crores Forty Nine Lakhs Eighty Two Thousand Six Hundred and Ten) divided into 11,04,98,261 (Eleven Crores Four Lakhs Ninety Eight Thousand Two Hundred and Sixty One) equity shares of INR 10 (Indian Rupees Ten) each;
  - d. The proposed accounting treatment in the books of the Company relating to the reduction of share capital of the Company as set out in Clause 8 of the draft Scheme is outside the purview of the applicable accounting standards specified under Section 133 of the Act. In the absence of specific guidance for accounting of transactions relating to the reduction of share capital, the accounting treatment under Clause 8 of the draft Scheme is construed to be in conformity with other generally accepted accounting principles in India
- After an independent assessment of the draft Scheme and taking into consideration the Valuation Report, Fairness Opinion and Auditors' Certificate, the members of the Audit Committee formed an opinion that the implementation of the proposed Scheme is in the interest of the Company and its shareholders, creditors and other stakeholders.

#### 4 Recommendation of the Audit Committee

The Audit Committee hereby approves and recommends the Scheme for favorable consideration by the Board, stock exchange(s), SEBI and other appropriate authorities.

**For and on behalf of Audit  
Committee of Escorts Limited**

  
**P.H. Ravikumar**  
**(Chairman of Audit Committee)**

Place: Mumbai

Dated: February 18, 2022

