



**REPORT OF THE AUDIT COMMITTEE OF ESCORTS KUBOTA LIMITED AT ITS MEETING HELD ON SEPTEMBER 15, 2022, RECOMMENDING THE COMPOSITE SCHEME OF AMALGAMATION AMONGST ESCORTS KUBOTA LIMITED, ESCORTS KUBOTA INDIA PRIVATE LIMITED, KUBOTA AGRICULTURAL MACHINERY INDIA PRIVATE LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS.**

**Members Present:**

Sl. No.	Name of Audit Committee Members	Designation
1.	Mr. Vimal Bhandari	Chairman
2.	Mr. Hardeep Singh	Member
3.	Mr. Manish Sharma	Member

**1. Background**

1.1 A meeting of the Audit Committee of Escorts Kubota Limited ("**Company**") was held on September 15, 2022, to, *inter alia*, consider and if thought fit, recommend to the board of directors of the Company ("**Board**"), the draft composite scheme of amalgamation of Escorts Kubota India Private Limited ("**Amalgamating Company No. 1**"), Kubota Agricultural Machinery India Private Limited ("**Amalgamating Company No. 2**") (Amalgamating Company No.1 and Amalgamating Company No.2 are together referred to as the "**Amalgamating Companies**") into and with the **Company** (together referred to as "**Companies**") and their respective shareholders and creditors, ("**Scheme**") pursuant to the provisions of Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 ("**Act**") and the rules and regulations made thereunder, read with Section 2(1B) and other applicable provisions of the Income Tax Act, 1961.

1.2 This report of the Audit Committee is made in compliance with the requirement of the SEBI 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**"), as amended from time to time, issued by the Securities Exchange and Board of India ("**SEBI**"). In terms of the SEBI Circular, a report from the Audit Committee is required, recommending the draft Scheme, taking into consideration, *inter alia*, the Valuation Report (*as defined below*).

**Escorts Kubota Limited**

(Formerly Escorts Limited)

**Corporate Secretarial & Law**

Registered Office - 15/5, Mathura Road, Faridabad-121003, Haryana, India  
Tel.: +91-129-2250222 | E-mail: corpl@escorts.co.in | Website: www.escortsgroup.com  
Corporate Identification Number L74899HR1944PLC039088

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**SATYENDRA CHAUHAN**  
Company Secretary

1.3 The following documents were placed before the Audit Committee for its consideration:

- (a) Draft Scheme, duly initialled by the Company Secretary of the Company for the purpose of identification;
- (b) Valuation report dated September 15, 2022, issued by Mr. Niranjana Kumar, Registered Valuer (IBBI Registration No. – IBBI/RV/06/2018/10137), for the determination of share entitlement ratios under the draft Scheme (“**Valuation Report**”);
- (c) Fairness opinion dated September 15, 2022, prepared by Fedex Securities Private Limited, an Independent SEBI registered Category-I Merchant Banker (Registration Number – INM000010163), confirming that the share exchange ratios in the Valuation Report are fair to the Companies and their respective shareholders and creditors (“**Fairness Opinion**”); and
- (d) Auditors’ certificate dated September 15, 2022, pursuant to paragraph A.5 of Part I of the SEBI Master circular no. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021, confirming that the accounting treatment contained in the draft Scheme is in compliance with all the applicable accounting standards specified by the Central Government under Section 133 of the Act read with applicable rules, and/or the accounting standards issued by the Institute of Chartered Accountants of India and other generally accepted accounting principles.

## 2. Observations of Audit Committee on the Scheme

### 2.1 The Need & Rationale for the Scheme-

- (a) The Company proposes to enter into the Scheme with Amalgamating Company No. 1 and Amalgamating Company No. 2, such that the Company becomes the exclusive vehicle for the agri-machinery business in India. The amalgamation is proposed to consolidate their respective manufacturing/ service capabilities, thereby increasing efficiencies in operations and use of resources, to consolidate their diversified product and services portfolio for improving overall customer satisfaction, to pool their human resource talent for optimal utilization of their expertise, to integrate the marketing and distribution channels for better efficiency, to have a larger market footprint domestically and globally and to ensure optimization of working capital utilization.
- (b) The managements of the Companies are of the view that the amalgamation proposed under the Scheme is, in particular, expected to have the following benefits:

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- (i) Reduction in management overlaps and reduction of legal and regulatory compliances and associated costs due to operation of multiple companies;
- (ii) Optimization of the allocated capital and availability of funds which can be deployed more efficiently to pursue the operational growth opportunities;
- (iii) Consolidation of funds and resources will lead to optimization of working capital utilization and stronger financial leverage given the simplified capital structure, improved balance sheet, and optimized management structure;
- (iv) Consolidation of businesses under the amalgamation would result in the pooling of financial, managerial, technical and human resources, thereby creating a stronger base for future growth and value accretion for the stakeholders; and
- (v) Consolidation of production capabilities, integration and efficiency of operations, economies of scale, to create a larger scale of business and operations to cater to the demand of the agro-machinery industry. Consolidation of the complementing strengths will enable the Company to be the exclusive vehicle for the agri-machinery business in India.

## 2.2 Cost-Benefit Analysis of the Scheme-

The Audit Committee noted that the management of the Company is of the considered opinion that though the Scheme would lead to incurring of some costs towards implementation of the Scheme, however, the benefits of the Scheme over a longer period would far outweigh such costs for the stakeholders of the Company.

## 2.3 Synergies of business of the entities involved in the Scheme

As elaborated above in the rationale of the Scheme, consolidation of respective manufacturing/ service capabilities of the Companies would lead to increase in operational efficiencies and better utilization of resources and hence their amalgamation will bring greater synergy in the operation. Centralization of inventory, from raw material to finished goods and spares may enable better efficiency, low procurement costs and overall reduction in working capital. Similarly, combined logistics is likely to lead to reduction in the overall transportation costs for the Company. Further, a simplified group structure will also help in optimal utilisation of the strengths of the respective Companies.

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## 2.4 Salient Features of the Scheme

The Audit Committee considered and observed the following salient features in relation to the draft Scheme –

- (a) The draft Scheme provides for the amalgamation of the Amalgamating Companies into and with the Company (including cancellation of inter-company investments held by the Company in the Amalgamating Companies), in the manner set out in the draft Scheme;
- (b) The Appointed Date means April 1, 2023, with effect from which the Scheme will be deemed to be effective in the manner described in the Scheme;
- (c) The effectiveness of this Scheme is conditional upon and subject to the following:
  - (i) receipt of an 'Observation Letter' or a 'No-objection Letter' from the National Stock Exchange of India Limited and the BSE Limited on the draft Scheme, as required under applicable laws, are, in form and substance, acceptable to the Amalgamating Companies and the Company, each acting reasonably and in good faith;
  - (ii) the Scheme being approved by the requisite majorities of such classes of shareholders and creditors of the Companies as may be required under applicable laws or as may be directed by the NCLT;
  - (iii) the Scheme being approved by the shareholders of the Companies, provided that the votes cast by public shareholders of the Company in favour of the Scheme are more than the number of votes cast by public shareholders against it, through e-voting in terms of Paras (A)(10)(a) and (A)(10)(b) of Part I of the SEBI master circular no. SEBI/HO/CFD/DIL1/CIR/P/2021/000000665 dated November 23, 2021;
  - (iv) the sanction to the Scheme by the NCLT under the relevant provisions of the Act;
  - (v) compliance with such conditions as may be imposed by the NCLT;
  - (vi) receipt of the approval from the Competition Commission of India ("CCI") in respect of the Scheme, if applicable, in accordance with the provisions of the Competition Act, 2002, pursuant to a joint application filed by the Companies, which shall be in form and substance acceptable to the Companies, each acting reasonably and in good faith, or the waiting period during which the CCI is required to provide its decision in respect of the

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application for approval in respect of the Scheme contemplated herein, together with any extensions thereof, shall have expired;

- (vii) the receipt of such other approvals including, approvals of any governmental authority as may be necessary under applicable laws or under any material contract to make the Scheme or the relevant Part of the Scheme effective or on the expiry of any statutory time period pursuant to which such approval is deemed to have been granted; and
- (viii) the certified copies of the order of the NCLT sanctioning the Scheme (wholly or partially) being filed with the Registrar of Companies by each of the Companies.
- (d) Upon the Scheme becoming effective, with effect from the Appointed Date, the Company shall account for the amalgamation in its books of accounts, as per 'Pooling of Interest Method' in accordance with the accounting principles as laid down in Ind AS-103 notified under Section 133 of the Act and under the Companies (Indian Accounting Standards) Rules, 2015, as may be amended from time to time;
- (e) The following share exchange ratio has been determined for the allotment of the equity shares of the Company having face value of Rs. 10 each to the shareholders of Amalgamating Company No. 1 as on the Effective Date (as defined in the Scheme), in consideration for the amalgamation of Amalgamating Company No. 1 with and into the Company:
- "5 (Five) equity shares of Amalgamated Company having face value of INR 10 each fully paid up shall be issued for every 129 (One Hundred Twenty-Nine) equity shares held in Amalgamating Company No. 1 having face value of INR 100 each fully paid up."*
- (f) The following share exchange ratio has been determined for the allotment of the equity shares of the Company having face value of Rs. 10 each to the shareholders of Amalgamating Company No. 2 as on the Effective Date (as defined in the Scheme), in consideration for the amalgamation of Amalgamating Company No. 2 with and into the Company:
- "5 (Five) equity shares of Amalgamated Company having face value of INR 10 each fully paid up shall be issued for every 220 (Two Hundred Twenty) equity shares held in Amalgamating Company No. 2 having face value of INR 10 each fully paid up."*
- (g) To the extent the Company is a shareholder of the Amalgamating Companies as on the Effective Date, no shares shall be issued by the Company in lieu of any

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such shareholding in Amalgamating Companies.

- (h) Upon the Scheme becoming effective on the Effective Date, Amalgamating Company No. 1 and Amalgamating Company No. 2 shall stand automatically dissolved without being wound up, as an integral part of the Scheme;
- (i) Upon the Scheme becoming effective on the Effective Date, the authorised share capital of Amalgamating Company No.1 and Amalgamating Company No. 2 as on the Effective Date shall stand transferred to and be merged/ amalgamated with the authorised share capital of the Company, and the fee, if any, paid by Amalgamating Company No. 1 and Amalgamating Company No. 2 on their respective authorised share capital shall be set off against any fee payable by the Company on such increase in its authorised share capital, consequent to the amalgamation.

The Audit Committee reviewed and noted that -

The draft Scheme does not fall within the purview of related party transactions in terms of General Circular No. 30/2014 dated July 17, 2014, issued by the Ministry of Corporate Affairs ("MCA") since the same is subject to the sanction of the NCLT, and the provisions of Section 188 of the Act are not applicable.

Further, there are common promoters in the Company, Amalgamating Company No.1 and Amalgamating Company No.2. The Company and Kubota Corporation ("KBT") (one of the promoters of the Company) holds 40% and 60% shares, respectively, in Amalgamating Company No. 1 and Amalgamating Company No.2. In terms of the Scheme, equity shares of the Company are proposed to be issued and allotted to the shareholders of Amalgamating Company No.1 and Amalgamating Company No.2 (except for the shareholding held by the Company). In view of the aforesaid paragraph and in terms of Paragraphs 10(b)(i) and 10(b)(ii) of the SEBI master circular no. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021, the Scheme shall be acted upon only if the votes cast by the public shareholders of the Company in favour of the Scheme are more than the number of votes cast by the public shareholders against it.

The consideration as set forth in the draft Scheme will be discharged on an "arm's length basis". The share exchange ratios for the shares to be allotted to the shareholders of Amalgamating Company No.1 and Amalgamating Company No.2 are based on the Valuation Report and the Fairness Opinion. The aforementioned Valuation Report and Fairness Opinion have duly been considered by the Audit Committee.

Further, Walker Chandiook & Co LLP, the auditors of the Company have confirmed that the accounting treatment as specified in the draft Scheme is in accordance with the applicable Indian Accounting Standards issued by the Institute of Chartered Accountants of India and as notified by the MCA, read together with Section 133 of the Act and the Companies (Indian

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Accounting Standards) Rules, 2015.

### **Impact of the Scheme on the Shareholders**

- 2.5 The Audit Committee reviewed the Valuation Report for determination of share entitlement ratios under the draft Scheme. The Audit Committee has also reviewed the Fairness Opinion confirming that the share entitlement ratios in consideration of the draft Scheme are fair to the Companies and their respective shareholders and creditors.
- 2.6 The Audit Committee is of the Informed opinion that the draft Scheme is for the best interests of the Companies and their respective shareholders and creditors. The impact of the draft 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 except that there will be proportionate dilution of all the shareholders, including, the public shareholders due to issuance of shares to KBT, as existing shareholder of Amalgamating Company No. 1 and Amalgamating Company No. 2.

### **3. Recommendations of the Audit Committee**

Taking into consideration the draft Scheme and its rationale and benefits, the Valuation Report, the Fairness Opinion, and other documents, as placed before the Audit Committee, and the interest of the shareholders of the Company, the Audit Committee after due deliberation, unanimously recommends the draft Scheme to the Board of the Company, stock exchange(s), SEBI and other appropriate authorities for their favourable consideration and approval.

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



**Vimal Bhandari**  
**(Chairman of Audit Committee)**

Place: Singapore  
Dated: September 15, 2022

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**For ESCORTS KUBOTA LIMITED**

  
**SATYENDRA CHAUHAN**  
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