

REPORT OF THE AUDIT COMMITTEE MEETING OF M/S. PENNAR ENGINEERED BUILDING SYSTEMS LIMITED FOR RECOMMENDING THE DRAFT SCHEME OF AMALGAMATION OF PENNAR ENGINEERED BUILDING SYSTEMS LIMITED AND PENNAR ENVIRO LIMITED WITH PENNAR INDUSTRIES LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AT ITS MEETING HELD ON THURSDAY, THE 9TH DAY OF NOVEMBER, 2017 AT 9:00 A.M. AT 9TH FLOOR DHFLVC SILICON TOWERS, KONDAPUR, HYDERABAD - 500084

Members Present:

Mr. B kamalaker Rao - Chairman
Mr. C Parthasarathy - Member
Mr. Eric James Brown - Member

In attendance:

Mr. Aditya Rao - Vice-Chairman
Mr. P V Rao - Managing Director
Mr. C Manoj - General Manager - Corporate Planning - PIL
Mr. Mirza Mohammed Ali Baig - Company Secretary & Compliance Officer

1. BACKGROUND

The Company has placed before the Audit Committee a draft Scheme for amalgamation of Pennar Engineered Building Systems Limited ('PEBS' or 'First Transferor Company') and Pennar Enviro Limited ('PEL' or 'Second Transferor Company') (hereinafter collectively referred to as 'Transferor Companies') with Pennar Industries Limited ('PIL' or 'the Transferee Company') ('the Scheme') for consideration and recommendation to the Board of Directors of the Company as required vide SEBI Circular No. CFD/DIL3/CIR/2017/21 dated 10 March 2017 ('Circular') read with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations').

The Audit Committee has made this Report pursuant to the requirements set out in the Circular and after considering the following documents:

- (i) Draft Scheme of Amalgamation;
- (ii) Valuation Report dated 9th November, 2017, issued by Walker Chandiook & Co LLP;
- (iii) Fairness opinion dated 9th November, 2017, issued by Keynote Corporate Services Limited, on the Valuation Report;
- (iv) Audited financial statements of the Transferor Companies and the Transferee Company for the year ending 31 March 2017, 31 March 2016 and 31 March 2015.

2. FEATURES OF THE PROPOSED SCHEME

The salient features of the draft Scheme are as under:

i. The Scheme provides for amalgamation of the Transferor Companies with the Transferee Company pursuant to Section 230 to 232 and other applicable provisions, if any, of the Companies Act, 2013 as amended from time to time.

ii. The Appointed Date for the amalgamation is 1st April, 2018.

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iii. Upon the coming into effect of the Scheme and with effect from the Appointed Date, all assets, liabilities, contracts, rights, obligations etc. of the Transferor Companies shall without any further act, instrument or deed be transferred to and vested in PIL.

iv. The fair Share Exchange Ratio determined by Walker Chandok & Co LLP, Independent Chartered Accountants, in their Valuation Report dated 9th November, 2017 is as under:

- 23 (Twenty Three) equity share in the Transferee Company of the face value of Rs. 5/- (Rupees Five) each credited as fully paid-up for every 13 (Thirteen) equity share of Rs. 10/- (Rupees Ten) each fully paid-up, held by such member in the First Transferor Company; and

- 1 (One) equity share in the Transferee Company of the face value of Rs. 5/- (Rupees Five) each credited as fully paid-up for every 1 (One) equity share of Rs. 10/- (Rupees Ten) each fully paid-up, held by such member in the Second Transferor Company

v. The Fairness Opinion on the valuation report dated 9th November, 2017, issued by Keynote Corporate Services Limited, Category 1 Merchant Banker, confirms that the Share Exchange Ratio is fair to the Company. The First Transferor Company and its shareholders and the public shareholders of the First Transferor Company are not likely to be affected and/ or prejudiced by the Scheme.

vi. The equity shares issued pursuant to this Scheme shall be listed on the stock exchanges on which the existing shares of the Transferee Company are listed, subject to completion of formalities.

vii. The Accounting treatment in the Scheme is in compliance with all the Accounting Standards specified by the Central Government in Section 133 of the Companies Act, 2013.

3. RATIONALE AND BENEFITS

PIL holds 54% stake in PEBS since October 2009. One of PIL's most successful initiatives since its inception, PEBS was set up in 2008 with a vision to emerge as a leader in the pre-engineered buildings and structural steel industry space.

PIL acquired 51% stake in PEL in 30 November 2012 with the objective of entering new areas of engineering services. PEL has strong references in a range of technologies including desalination, effluent treatment and recycling, demineralization and instrumentation.

Accordingly, the merger of the Transferor Companies with the Transferee Company would have the following benefits:

- Enable the shareholders of PIL to get direct participation in the promising business of PEBS & PEL.
- Further, the merger would offer a greater potential to the combined entity to develop and further grow and diversify with better optimization of funds and efficient utilization of resources.
- Simplification of the management structure leading to better administration and reduction in costs from more focused operational efforts, rationalization, standardization and simplification of business processes.
- Synergies arising out of consolidation of business, such as enhancement of net worth of the combined business which shall lead to better ability to leverage the business including reduction in cost of capital.



4. RECOMMENDATION OF THE AUDIT COMMITTEE

The Audit Committee unanimously recommends the draft Scheme, inter-alia, taking into consideration the Valuation Report and the Fairness Opinion, for favorable consideration by the Board of Directors of the Company, Stock Exchanges, the Securities and Exchange Board of India and other appropriate authorities.

for and on behalf of the Audit Committee of Pennar Engineered Building Systems Limited



Name: B Kamalaker Rao

Designation: Chairman of the Audit Committee

Date: 09.11.2017

Place: Hyderabad

