Mangalore Chemicals
& Fertilizers Limited

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF MANGALORE CHEMICALS & FERTILIZERS LIMITED RECOMMENDING THE DRAFT COMPOSITE SCHEME OF ARRANGEMENT AMONGST PARADEEP PHOSPHATES LIMITED, MANGALORE CHEMICALS & FERTILIZERS LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

The following members of the Audit Committee ("**Committee**") of Mangalore Chemicals & Fertilizers Limited (the "**Company**") were present at the meeting of the Committee:

1. Mr. Marco Wadia - Independent Director and Chairman of the Audit Committee
2. Mr. D A Prasanna - Independent Director and Member of the Audit Committee
3. Mrs. Kiran Dhingra - Independent Director and Member of the Audit Committee

1. Background

1.1 A meeting of the Committee was held on February 7, 2024, to consider and recommend the proposed scheme of arrangement which *inter alia* provides for the amalgamation of the Company with and into Paradeep Phosphates Limited ("**Transferee Company**") pursuant to a composite scheme of arrangement amongst the Company, the Transferee Company and their respective shareholders and creditors ("**Scheme**") under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 ("**Companies Act**").

1.2 The Company is a listed public limited company, whose equity shares are listed on the BSE Limited and the National Stock Exchange of India Limited (collectively referred to as the "**Stock Exchanges**").

1.3 The Transferee Company is a listed public limited company, whose equity shares are listed on the Stock Exchanges.

1.4 In terms of the Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 issued by the Securities and Exchange Board of India ("**SEBI**") on June 20, 2023 (as amended from time to time) ("**SEBI Scheme Circular**"), the Committee is required to provide a report recommending the draft Scheme taking into consideration, *inter alia*, the valuation report. This Report of the Committee is also required to, in terms of the SEBI Scheme Circular, comment on the: (a) need for the merger/amalgamation/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) cost benefit analysis of the Scheme.

1.5 The Scheme shall be filed with the relevant jurisdictional National Company Law Tribunals as per Sections 230 to 232 of the Companies Act and has been drawn in compliance with Section 2(1B) and other applicable provisions of the Income Tax Act, 1961 and other applicable laws, including the SEBI Scheme Circular.

1.6 This Report is made in compliance with the SEBI Scheme Circular.

Registered Office: UB Tower, Level 11, UB City, 24, Vittal Mallya Road, Bengaluru - 560 001, India.
Tel: +91 80 4585 5575/68 Fax: +91 80 4585 5588 E-mail: shares.mcfl@adventz.com
Website: www.mangalorechemicals.com
Corporate Identity Number: L24123KA1966PLC002036

2. Documents perused by the Committee

While deliberating on the Scheme, the Committee, *inter alia*, considered and took on record the following documents:

(a) the Scheme;

(b) the valuation report dated February 7, 2024 jointly issued by SSPA & Co Chartered Accountants (IBBI Registration No. IBBI/RV-E/06/2020/126) and Pawan Shivkumar Poddar (IBBI Registration No. IBBI/RV/06/2019/12475), registered valuers appointed by the Committee (collectively the "**Valuation Report**");

(c) the fairness opinion dated February 7, 2024 issued by Fedex Securities Private Limited, the SEBI registered merchant banker with registration number INM 000010163 providing its opinion on the fairness of the share exchange ratio proposed in the Valuation Report ("**Fairness Opinion**"); and

(d) the certificate dated February 7, 2024 issued by M/s. PKF Sridhar & Santhanam LLP, the statutory auditors, certifying that the accounting treatment contained in the Scheme is in conformity with the accounting standards prescribed under Section 133 of the Companies Act read with the rules framed thereunder or the accounting standards issued by the Institute of Chartered Accountants of India, as applicable and other generally accepted accounting principles.

3. Salient features of the Scheme

3.1 The Scheme, amongst others, contemplates the following:

(a) the amalgamation by way of merger of the Company with and into the Transferee Company in accordance with Sections 230 to 232 of the Companies Act and other applicable laws;

(b) the transfer of the Identified Shares (*as defined in the Scheme*) from the Transferor Shareholder (*as defined in the Scheme*) to the Transferee Shareholder (*as defined in the Scheme*);

(c) issuance and allotment of equity shares of the Transferee Company (*as defined in the Scheme*) by the Transferee Company (*as defined in the Scheme*) to the equity shareholders of the Company, as on the Record Date (*as defined in the Scheme*), based on the share exchange ratio as provided for in the Valuation Report;

(d) transfer of the authorized share capital of the Company to the Transferee Company and the consequential increase in the authorized share capital of the Transferee Company as provided in the Scheme; and

(e) dissolution without winding up of the Company.

3.2 The effectiveness of the Scheme is conditional upon fulfilment of certain conditions precedent as provided in Clause 45 of the Scheme.

4. Need for the Scheme; Rationale of the Scheme; and Synergies of business of the entities involved in the Scheme

4.1 The proposed amalgamation will enable the Company and the Transferee Company to combine their businesses and create a strong amalgamated company, and to become one of the leading private-sector fertiliser companies in India.

4.2 The Company and the Transferee Company are engaged in similar and/or complementary businesses and the proposed amalgamation will create synergies between their businesses, including revenue synergies through sharing of consumer understanding, market insights and channel models to ensure faster reach to the market and to achieve faster growth.

4.3 The proposed amalgamation is expected to *inter alia* result in reduction of costs, better alignment, coordination and streamlining the day-to-day operation of all the units of the Company and the Transferee Company, strengthening of organizational capabilities around financial areas, driving scale benefits through pooling of resources, simplification of the corporate structure and elimination of administrative duplications by streamlining the legal, compliance and other statutory functions to allow a more coordinated approach towards governance of the businesses of the Transferee Company.

4.4 The proposed amalgamation is expected to create enhanced value for the stakeholders of both the Company and the Transferee Company.

5. Impact of the Scheme on the shareholders

5.1 The Audit Committee reviewed the Valuation Report and noted the valuation and the share exchange ratio for the proposed amalgamation as recommended by the valuers. No special valuation difficulties were reported by the valuers in their respective Valuation Report.

5.2 As per the Scheme, the Transferee Company is required to issue and allot fully paid equity shares of the Transferee Company to the shareholders of the Company, in consideration for the proposed amalgamation, in the following ratio:

> *For every 100 fully paid up equity shares of face value of INR 10 each held in the Company as on the Record Date (as defined in the Scheme), the equity shareholders of the Company shall be issued 187 equity shares of face value of INR 10 each credited as fully paid up in the Transferee Company.*

5.3 The equity shares of the Transferee Company to be issued and allotted to the shareholders of the Company as per the aforementioned share exchange ratio (which is in terms of the Valuation Report) are to rank *pari passu* in all respects with the existing equity shares of the Transferee Company.

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6. Cost benefit analysis of the Scheme

The Committee noted that the Scheme will provide an opportunity to improve the economic value for the shareholders of the Company and the Transferee Company. This is reflected by the proposed improved synergies that will arise pursuant to the Scheme. Although the Scheme involves certain costs such as transaction cost, implementation cost, regulatory fees, stamp duties, etc., however, the benefits of the proposed amalgamation as specified in paragraph 4 above over a long period would far outweigh such costs.

7. Recommendations of the Committee and Conclusion

Having considered the Scheme and its rationale and benefits, the Valuation Report, the Fairness Opinion, impact of the Scheme on its shareholders, cost benefit analysis of the Scheme, synergies of business and other documents as placed before the Committee, the Committee unanimously recommends the Scheme for approval.

For and on behalf of the **Audit Committee of**
Mangalore Chemicals & Fertilizers Limited

Marco Wadia
Chairperson, Audit Committee

DIN: 00244357
Date: February 07, 2024
Place: Mumbai