Annexure IV

AMARA RAJA
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REPORT OF THE AUDIT COMMITTEE OF AMARA RAJA BATTERIES LIMITED ("ARBL" OR "THE COMPANY" OR THE "RESULTING COMPANY") RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT AMONGST MANGAL INDUSTRIES LIMITED ("MIL" OR "DEMERGED COMPANY") AND THE COMPANY AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS.

Members present:

Name	**Designation**
Mr. N Sri Vishnu Raju	Chairman - Independent Director
Ms. Bhairavi Tushar Jani	Member - Independent Director

Special Invitee

Mr. Annush Ramasamy	Independent Director

In attendance:

Mr. Vikas Sabharwal	Company Secretary
Mr. Y Delli Babu	Chief Financial Officer

Other Invitee(s):

Mr. Niranjan Kumar	Niranjan Kumar, Registered Valuer
Ms. Drushti Desai	Bansi S. Mehta Valuers LLP, Registered Valuer
Mr. Sourav Mallik	Kotak Mahindra Capital Company Limited, Merchant Banker
Mr. Anup Poddar	Kotak Mahindra Capital Company Limited, Merchant Banker
Mr. Girish Vanvari	Transaction Square LLP
Ms. Saloni Khandelwal	Transaction Square LLP

I. INTRODUCTION & BACKGROUND

The Audit Committee meeting was held on September 26, 2022 to consider and recommend to the Board of Directors of the Company, the draft Scheme of Arrangement amongst Mangal Industries Limited and Amara Raja Batteries Limited and their respective shareholders and creditors (hereinafter referred to as "the **Scheme**") pursuant to Sections 230 to 232 and other applicable provisions of the Companies Act, 2013, the rules and regulations made thereunder (including any statutory modifications or re-enactments thereof for the time being in force) ("**Companies Act**" or the "**Act**") and other applicable laws including the master circular issued by the Securities and Exchange Board of India ("**SEBI**") Master Circular No. SEBI/HO/CFD/DIL I /CIR/P/2021/000000 0665 dated 23 November 2021 (as amended from time to time) ("**SEBI Scheme Circular**").

ARBL is a public limited company incorporated on February 13, 1985, with Corporate Identification Number: L31402AP1985PLC005305 and having its Registered Office at Renigunta Cuddapah Road, Karakambadi, Tirupati, Andhra Pradesh 517520. ARBL is engaged in the business of manufacturing of energy storage products for both industrial and automotive applications. The equity shares of ARBL are listed and traded on BSE Limited ("**BSE**") and National Stock Exchange of India Limited ("**NSE**") (BSE and NSE collectively referred to as the "**Stock Exchanges**").

MIL is an unlisted public limited company incorporated on November 09, 1990, with Corporate Identification Number U15122AP1990PLC011932 and having its registered office at Renigunta Cuddapah Road, Karakambadi, Tirupati, Andhra Pradesh 517520. MIL is engaged in various businesses such as Plastic Component for Battery Business (*as defined in the Scheme*), manufacturing of auto components (including fasteners, plastics, copper inserts / connectors and others), metal fabrication, storage solution, lead bushes and trading of various products, etc.
In terms of the provisions of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**Listing Regulations**"), read with the **SEBI**

Scheme Circular, a report from the Audit Committee recommending the draft Scheme is required, taking into consideration, *inter alia*, the Valuation Report *(as defined hereinafter)*, and commenting on the need for the Scheme, rationale of the Scheme, synergies of business involved in the Scheme, impact of the Scheme on the shareholders and cost benefit analysis of the Scheme. This Report is made in compliance with the **SEBI Scheme Circular**.

II. DOCUMENTS PLACED BEFORE THE AUDIT COMMITTEE

i. Draft Scheme, duly initialed by the Company Secretary of the Company for the purpose of identification.

ii. Valuation Report dated September 26, 2022 ("**Valuation Report**") issued jointly by Mr. Niranjan Kumar, Registered Valuer - Securities or Financial Assets (Registered Valuer Registration No. IBBI/RV/06/2018/10137) and Bansi S Mehta Valuers LLP, Registered Valuer – Securities or Financial Assets (Registered Valuer Registration No. IBBI/RV-E/06/2022/172), describing, *inter-alia*, the methodologies adopted by them in arriving at the recommended Share Entitlement Ratio *(as defined below)* and setting out its detailed computation for the proposed Scheme.

iii. Fairness Opinion dated September 26, 2022 ("**Fairness Opinion**") issued by Kotak Mahindra Capital Company Limited, an Independent SEBI registered Category I Merchant Banker (SEBI Registration No. INM000008704), providing its opinion on the fairness of the Share Entitlement Ratio as recommended in the Valuation Report.

iv. Statutory Auditors Certificate dated September 26, 2022, issued by the Joint Statutory Auditors of the Company i.e. M/s. Brahmayya & Co, Chartered Accountants and M/s. Deloitte Haskins & Sells LLP, Chartered Accountants, certifying that the accounting treatment prescribed in the draft Scheme is in conformity with the accounting standards prescribed under Section 133 of the Companies Act.

v. Audited financial statements of MIL as on and for the year ended 31st March 2022 and as on and quarter ended 30th June 2022.

vi. Carve out financials of Demerged Undertaking (*as defined in the Scheme*) as on and for the year ended 31st March 2022 and as on and quarter ended 30th June 2022.

vii. Financial, Tax and Legal Due Diligence Reports.

III. SALIENT FEATURES OF THE SCHEME

The Audit Committee considered and observed the following salient features of the draft Scheme:

i. The Scheme provides for the demerger of the Plastic Component for Battery Business (*Demerged Undertaking*) of the Demerged Company (*as defined in the Scheme*) on a 'going concern basis' to the Company.

ii. The Scheme shall be effective from April 1, 2022, i.e. "Appointed Date".

iii. Pursuant to the Scheme, the Company will issue and allot to the equity shareholders of the Demerged Company as on the record date, such number of equity shares as determined in

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the Valuation Report and approved by the Board as per Share Entitlement Ratio mentioned below:

> *"65 (Sixty Five) equity shares of ARBL of INR 1/- each, fully paid-up for every 74 (Seventy Four) equity shares of MIL of INR 10/- each, fully paid-up"* ***("Share Entitlement Ratio")***

iv. The equity shares to be issued by the Company to the shareholders of Demerged Company on the record date, pursuant to the Scheme, will be listed and admitted to trading on the Stock Exchanges.

v. The Company shall follow the accounting treatment for the Scheme as per the applicable method of accounting prescribed under the Indian Accounting Standard (Ind AS) 103 – "Business Combination" notified under Section 133 of the Act read with the applicable rules issued thereunder.

vi. Upon the Scheme becoming effective, the Demerged Undertaking (*as defined in the Scheme*) along with all of its assets, liabilities, contracts, employees, records, etc. being its integral part shall stand transferred to the Resulting Company as a going concern subject to the provisions of the Scheme;

vii. From the Appointed Date and up to the Effective Date (*as defined in the Scheme*), MIL shall carry on its business of the Demerged Undertaking (*as defined in the Scheme*) and activities with reasonable diligence and business prudence.

viii. The Scheme will come into effect subject to approval of Stock Exchanges, jurisdictional National Company Law Tribunal ("**NCLT**"), shareholders, creditors and such other statutory authorities as may be required.

IV. NEED FOR THE DEMERGER

With the objective of simplifying the operations between the two Companies in order to increase efficiencies, the Company has strategically decided to integrate the Plastic Component for Battery Business (*Demerged Undertaking*) of the Demerged Company with its core battery manufacturing operations. The backward integration is expected to enhance the Company's control over the supply and inventory management of its raw materials. The Scheme will result in further benefits as detailed out in the "Rationale of the Scheme" section.

V. RATIONALE OF THE SCHEME

The Audit Committee noted the rationale of the draft Scheme, which is as follows:

The Resulting Company, since its incorporation, has focussed on manufacturing of lead-acid based batteries and had strategically outsourced a few important back-end operations / functions. One such major back-end outsourced operations is manufacturing of plastic components for batteries, including that of plastic containers, jars, covers, small plastic parts, handles etc., to the Demerged Company.

The Demerged Company is engaged in various businesses such as Plastic Component for Battery Business, business of manufacturing of auto components (including fasteners, plastics, copper inserts / connectors and others), metal fabrication, storage solution, lead bushes and trading of various products, etc. The entire output generated from the Plastic Component for Battery Business is currently sold to the Resulting Company.

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As the Resulting Company acquired substantial market share over a period of time in the lead acid-based battery business, the management of the Resulting Company has strategically decided to integrate the Plastic Component for Battery Business of the Demerged Company, with its core battery manufacturing operations.

Accordingly, pursuant to the Scheme, the Plastic Component for Battery Business will be demerged into the Resulting Company and the Demerged Company would continue to run and operate the Retained Business. The Scheme is being proposed with a view to simplify the existing operations between the two companies in order to increase efficiencies.

The implementation of this Scheme will result in the following benefits:

The backward integration is expected to enhance the Resulting Company's control over the supply and inventory management of its raw materials. This would help with a unified approach on supply chain management and consequent synergies leading to optimization of resource utilisation, reduced operational, logistics, supervisory and overhead / utilities costs, reduce duplication of administrative efforts and better procurement policies and prices, for the Resulting Company.

The Resulting Company is focused on its sustainability initiatives and accordingly, is in the process of setting up battery recycling plant. Operations in this new plant are expected to generate plastic scrap which can be used to manufacture new battery containers and covers in the facilities of Demerged Undertaking, thereby stabilising the procurement process and adding further synergies in the combined business.

The proposed demerger is expected to enhance the Resulting Company's margins and profitability, which would enhance value for all its stakeholders.

The management of the Demerged Company intends to increase its focus on the Retained Business i.e., business of manufacturing of auto components (including fasteners, plastics, copper inserts / connectors and others), metal fabrication, storage solution, lead bushes and trading of various products etc. Increased focus would help in improving MIL's performance metrics leading to better value creation and growth of the Retained Business.

In view of the aforesaid, the Board of Directors of the Demerged Company and the Resulting Company have considered it desirable and expedient to demerge the Demerged Undertaking of the Demerged Company and vest the same with the Resulting Company. Such demerger is expected to be in the best interest of both companies, their respective shareholders, creditors, employees and other stakeholders.

The Audit Committee is of the informed opinion that the proposed rationale of the Scheme is beneficial to the Company and its shareholders.

VI. SYNERGIES OF BUSINESS OF THE ENTITIES INVOLVED IN THE SCHEME

Various potential synergies arising from the transaction includes:

- optimization of resource utilization
- reduced operational and logistics costs
- better leverage of supply chain and common procurement

Estimated value of the annual recurring potential benefits would range from INR 50 – 60 Million

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VII. IMPACT OF THE SCHEME ON THE SHAREHOLDERS

The members of the Audit Committee discussed and deliberated upon the rationale and salient features of the Scheme. The Scheme is expected to be beneficial to the shareholders of the Company with the overall theme of backward integration thereby achieving cost and operational efficiencies. As consideration, equity shares will be issued by the Company to the shareholders of the Demerged Company under the Scheme which will result in the dilution of the shareholding of the existing shareholders in the Company. The shareholders of the Company in turn will benefit on account of a) backward integration of the business and enhanced control over the supply chain; b) enhanced margins and profitability; c) synergies which are expected to accrue to the Company; and d) expected accretion of Earnings Per Share ("EPS").

The Company will issue and allot equity shares, as fully paid-up to the shareholders of the Demerged Company, in accordance with the Share Entitlement Ratio and in the manner as set out in Paragraph III above, and in accordance with the recommendations in the Valuation Report by valuers. The equity shares to be issued by the Company to the shareholders of the Demerged Company pursuant to the Scheme shall rank *pari passu* in all respects with the then existing equity shares of the Company.

Based on the above, the Audit Committee is of the informed opinion that the proposed Scheme is not detrimental to the interest of the shareholders of the Company.

VIII. COST-BENEFIT ANALYSIS

The Scheme is expected to provide an opportunity to improve the economic value for the Companies involved in the Scheme and their stakeholders pursuant to the backward integration of the business. This is primarily on account of various cost and operational synergies which are expected to accrue to the Company on account of the Scheme and more particularly detailed out in paragraph V and VI above. While the proposed Scheme would lead to transaction costs relating to its implementation, the benefits of the Scheme outweigh such costs for the Company and its stakeholders.

IX. OTHER ASPECTS OF THE PROPOSED TRANSACTION

In addition to the Scheme of Arrangement, the Company shall enter into an Implementation Agreement with the Demerged Company, RNGalla Family Private Limited (RFPL) and Promoters of RFPL containing the following salient terms and conditions:

i. To provide certain mutual rights and obligations regarding the transition of business;

ii. The Demerged Company, failing it, RFPL to indemnify, defend and hold harmless the Company, its directors, officers, representatives and employees for any indemnifiable matters provided in such Agreement;

iii. the Demerged Company, RFPL and Promoters of RFPL along with their affiliates, to not compete with the Company with respect to the Plastic Component for Battery Business (*Demerged Undertaking*) for a period of 3 years from the Effective Date.

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X. RECOMMENDATIONS OF THE AUDIT COMMITTEE

The Audit Committee has reviewed the Valuation Report and recommendations made therein. Further, the Fairness Opinion has confirmed that the recommended Share Entitlement Ratio in the Valuation Report is fair to the shareholders of the Company.

After due deliberations and taking into consideration all the terms of the draft Scheme, Valuation report, Fairness Opinion, and Certification from Joint Statutory Auditors, need for the Scheme, rationale of the Scheme, synergies of business of ARBL and MIL, impact of the Scheme on the shareholders, cost-benefit analysis of the Scheme and other relevant documents placed before the Audit Committee, the Audit Committee recommends the draft Scheme for favorable consideration and approval of the Board of Directors of the Company, the Stock Exchanges, the SEBI and other statutory / regulatory authorities including jurisdictional National Company Law Tribunal.

In order for the Company to comply with the requirements of the extant regulations applicable to the listed companies undertaking any scheme of arrangement under the Companies Act, 2013 and SEBI Scheme Circular, this report of the Audit Committee may please be taken on record by the Board of Directors of the Company while considering the Scheme for approval and further authorization.

For and behalf of Audit Committee of
Amara Raja Batteries Limited

N Sri Vishnu Raju

Amara Raja Batteries Limited

N Sri Vishnu Raju
DIN: 00025063
Chairman of Audit Committee

Date: September 26, 2022

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