

REPORT ADOPTED BY THE AUDIT COMMITTEE OF TEXMACO RAIL AND ENGINEERING LIMITED ("TREL / COMPANY") ON OCTOBER 13, 2023, RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT AND DEMERGER BETWEEN THE COMPANY AND BELGHARIA ENGINEERING UDYOG PRIVATE LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS UNDER SECTIONS 230 TO 232 OF THE COMPANIES ACT, 2013.

The following members of the Audit Committee were present:

- a. Shri Utsav Parekh, Chairman
- b. Shri Amitabha Guha, Member
- c. Shri D. R. Kaarthikeyan, Member
- d. Shri Indrajit Mookerjee, Member

1. Background

- 1.1. A meeting of the Audit Committee of the Company was held on October 13, 2023, to consider and recommend to the board of directors of the Company, the proposed scheme of arrangement and demerger between the Company and Belgharia Engineering Udyog Private Limited ("**BEL**") and their respective shareholders and creditors for the demerger of Infra Rail and Green Energy Division under Sections 230 to 232 of the Companies Act, 2013 ("**2013 Act**") and other applicable laws including 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) or any other circulars issued by SEBI applicable to schemes of arrangement from time to time ("**SEBI Master Circular**"), ("**Scheme**").
- 1.2. The Company is a listed public limited company incorporated under the provisions of the Companies Act, 1956. The equity shares of the Company are listed on BSE Limited ("**BSE**") and National Stock Exchange of India Limited ("**NSE**"), (collectively referred to as the "**Stock Exchanges**").
- 1.3. BEL is a private limited company incorporated under the provisions of the 2013 Act, and is a wholly owned subsidiary of the Company, and the shares and securities of BEL are not listed on any Stock Exchange.
- 1.4. In terms of the SEBI Master Circular, a report from the Audit Committee recommending the draft Scheme is required, taking into consideration, *inter alia*, the Share Entitlement Report (as defined hereinafter), and commenting on the need for the Scheme, rationale of the Scheme, synergies of the business of the entities involved, impact of the Scheme on the shareholders and cost benefit analysis of the Scheme. This report of the Audit Committee of the Company is made in compliance with the requirements of the SEBI Master Circular pursuant to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

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2. Documents placed before the Audit Committee

- (i) Draft Scheme of arrangement and demerger, duly initialled by the Chairperson of the Audit Committee of the Company for the purpose of identification;
- (ii) Share Entitlement Report dated 13 October 2023 issued by Mr. Harpreet Singh, a registered valuer (as defined in the Companies (Registered Valuers and Valuation) Rules, 2017) with IBBI registration number IBBI/RV/06/2019/12112;
- (iii) Fairness Opinion dated 13 October 2023 issued by M/s. Ekadrisht Capital Private Limited, SEBI Registered Category 1 Merchant Bankers, holding Permanent registration - INM000013040, providing its opinion on the fairness of the share entitlement ratio as recommended in the Share Entitlement Report;
- (iv) The certificate dated October 13, 2023 issued by M/s. L. B. Jha & Co., the statutory auditors of the Company, certifying that the accounting treatment proposed in the Scheme is in compliance with the accounting standards prescribed under the 2013 Act;
- (v) The certificate of the auditor under Para 10(c) of the SEBI Master Circular with respect to the Company's undertaking regarding non-applicability of requirements mentioned in Para 10(b) read with Para 10(a) of Part I-A of the SEBI Master Circular in relation to the Scheme.
- (vi) Other presentations, reports, documents and information made to / furnished before the Audit Committee pertaining to the draft Scheme.

3. Salient features of the Scheme

3.1. The "Appointed Date" under the Scheme means April 01, 2024 (beginning of business hours) or such other date as may be directed / approved by the Tribunal, from which date the Scheme will become operative, post effectiveness of this Scheme.

3.2. *Inter alia* the following are proposed under the Scheme:

- (a) the demerger of the Demerged Undertaking (*as defined in the Scheme*) (comprising of the Infra – Rail & Green Energy (*as defined in the Scheme*)) of the Company into BEL, as a going concern, together with, *inter alia*, all its properties, assets, rights, benefits and interests and liabilities and obligations, therein, and in consideration, the consequent issuance of New Equity Shares of BEL (*as defined in the Scheme*) to all the shareholders of the Company in accordance with the Share Entitlement Ratio (*as defined in the Scheme*), pursuant to the provisions of Section 2(19AA) read with Section 2(41A) and other relevant provisions of the Income Tax Act, 1961 (including any statutory modifications, re-enactments or amendments thereof and the rules made thereunder, for the time being in force) ("**Demerger**");



- (b) Reorganisation and increase of the authorised share capital of BEL for issuance of New Equity Shares of BEL by BEL to the shareholders of the Company as elaborated under Part III of the Scheme;
- (c) Listing and admission of all the Equity Shares of BEL (including the New Equity Shares of BEL) to trading in terms of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, read with Applicable Laws on the Stock Exchanges, after the Scheme become effective upon approval by National Company Law Tribunal, Kolkata (“NCLT”) and filing with jurisdictional Registrar of Companies, in accordance with SEBI Master Circular and in a manner set out in Part III of the Scheme;
- (d) Cancellation of the Existing Equity Shares of BEL (*as defined in the Scheme*) held by the Company and its nominee shareholders, simultaneously with the issue and allotment of the New Equity Shares of BEL without any further act or deed, with the approval of NCLT in terms of section 66 of the Act, as elaborated under Part III of the Scheme; and
- (e) various other matters consequential or otherwise integrally connected therewith.
- 3.3. Upon the Scheme becoming effective and in consideration of the Demerger, BEL shall issue and allot New Equity Shares of BEL (*as defined in the Scheme*) of INR 1 (Indian Rupee one) each, credited as fully paid-up to the shareholders of the Company, on the Record Date in the following manner, such that pursuant to such issuance and allotment upon the Scheme becoming effective, the shareholding pattern (in terms of ratio of equity shares) and *inter-se* shareholding percentage of shareholders of BEL shall mirror the shareholding pattern (in terms of ratio of equity shares) and *inter-se* shareholding percentage of the shareholders of TREL, as on the Record Date:
- “one (1) Equity Share of BEL having a face value of INR 1 (Indian Rupee one) each shall be issued and allotted to shareholders of TREL for every 3 (three) Equity Shares of TREL having a face value of INR 1 (Indian Rupee one) each, held by shareholders of TREL as of the Record Date” (“Share Entitlement Ratio”)*
- 3.4. The issuance of equity shares in accordance with paragraph 3.3 above, in consideration of the Demerger, will be undertaken simultaneously following effectiveness of the Scheme. Upon the Scheme becoming effective and following such issuance of the New Equity Shares of BEL (*as defined in the Scheme*) above, the existing shareholding of the Company in BEL shall stand cancelled and extinguished without any further act, instrument or deed and without any payment in this regard to the existing shareholders of BEL (i.e., TREL and its nominee shareholders).
- 3.5. On the Effective Date (*as defined in the Scheme*), the Scheme shall be made effective and operative.



4. **Need and Rationale of the Scheme and synergies involved therein** – the Audit Committee noted the potential synergies on account of the Scheme along with the rationale and the benefits of the Scheme which, *inter alia*, are stated hereinafter.

4.1. The Company is primarily engaged in four lines of business through separate business divisions as follows: (i) “Heavy Engineering Division”, engaged in the business of manufacturing of freight car and its components, etc; (ii) “Steel Foundry Division”, engaged in the business of manufacturing of steel castings etc; (iii) “Infra – Electrical” engaged in the business of execution of electrical projects etc; and (iv) “Infra – Rail & Green Energy” engaged in execution of projects related to green/renewable power, track laying, signalling and telecommunication, etc.

4.2. Each of these businesses carried on by the Company have significant potential for growth and profitability, however, the nature of risk, competition, challenges, opportunities, management focus and expertise, requirement of working capital, construction period for the Infra – Rail & Green Energy Division is very different. Accordingly, it is intended to segregate and transfer of the Infra – Rail & Green Energy Division into BEL through Demerger.

4.3. This Scheme is expected to result in the following benefits for the Company and/or BEL (as applicable):

- (i) Enable value unlocking of Infra – Rail & Green Energy Division within BEL and of the other divisions in the Company and giving option of investment to public shareholders into respective businesses and enable their independent value discovery;
- (ii) greater management focus for Infra – Rail & Green Energy Division and other divisions and provide opportunity to address independent business opportunities, pursue efficient capital allocation;
- (iii) providing scope for independent growth, collaboration and expansion of the segregated business verticals for enhancing their valuation;
- (iv) enabling independent focus towards Infra – Rail & Green Energy Division and the other divisions, better alignment of Infra – Rail & Green Energy Division and the other divisions to their customers and strengthening of their position in the relevant market segment, resulting in a more sustainable long-term growth and competitive edge.



5. Impact of Scheme on the shareholders of the Company.

- 5.1. The Scheme is expected to be beneficial to the shareholders of the Company as it is expected to provide greater financial strength and flexibility and better access to funds to both TREL and BEL.
- 5.2. The Audit Committee discussed and deliberated upon the rationale and salient features of the Scheme. The committee also noted that upon the Scheme becoming effective, pursuant to the Demerger and vesting of the Company's Infra-Rail & Green Energy Division into BEL, and in consideration of the said transfer, BEL will issue and allot equity shares of INR 1 (Indian Rupee one) each, fully paid-up to the shareholders of the Company, in the manner as set out in paragraphs 3.3 above, and in accordance with the recommendations under the Share Entitlement Report and the Fairness Opinion. The New Equity Shares of BEL to be issued by BEL to the members of the Company pursuant to the Scheme shall rank *pari passu* in all respects with the then Existing Equity Shares of BEL. Further, upon the Scheme becoming effective, the shareholding pattern (in terms of ratio of equity shares) and *inter-se* shareholding percentage of shareholders of BEL shall mirror the shareholding pattern (in terms of ratio of equity shares) and *inter-se* shareholding percentage of the shareholders of the Company, as on the Record Date. Also, the New Equity Shares of BEL (*as defined in the Scheme*) issued pursuant to the Scheme shall be listed on the Stock Exchanges giving more liquidity and flexibility to the shareholders of the Company and BEL.
- 5.3. Accordingly, there will be no detrimental impact on the shareholders of the Company due to the proposed Scheme.
- 5.4. Thus, on the basis of the above, the committee is of the opinion that the proposed Scheme is in the best interests of the Company and its respective shareholders.

6. Cost benefit analysis of the Scheme

As specified in the rationale of the Scheme (stated above), the Scheme would lead to improved competitiveness, operational efficiency and agility for both the companies. This would strengthen the competitive advantage for the Company as well as unlock value for shareholders in the long run and hence, is expected to offset the cost due to implementation of the Scheme.


7. Recommendation of the Audit Committee

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



The Audit Committee after due deliberations and due consideration of all the terms of the draft Scheme, the above rationale, the Share Entitlement Report, Fairness Opinion and the specific information and documents mentioned above including that the Scheme is in the best interests of the Company and its respective shareholders, recommends the draft Scheme of arrangement and demerger for favourable consideration and approval by the board of directors of the Company, Stock Exchanges, SEBI and other appropriate authorities.

For and on behalf of Texmaco Rail and Engineering Limited

Utsav Parekh
Chairman
Audit Committee
DIN: 00027642

Date: October 13, 2023
Place: Kolkata