



**REPORT OF AUDIT COMMITTEE OF ESCORTS LIMITED ("THE COMPANY") RECOMMENDING REDUCTION OF CAPITAL OF COMPANY AND SCHEME TO THAT EFFECT, AT THE MEETING HELD ON JULY 15, 2020.**

**Members**

1. Mr. P.H. Ravikumar - Chairman
2. Dr. Sutanu Behuria - Member
3. Mrs. Vibha Paul Rishi – Member
4. Mr. Hardeep Singh - Member

**In Attendance**

1. Mr. Nikhil Nanda, Chairman and Managing Director
2. Mr. Bharat Madan, Group Chief Financial Officer
3. Mr. Satyendra Chauhan, Company Secretary & Compliance Officer

**1 Background**

A meeting of the Audit Committee of Escorts Limited ("**Company**") was held on July 15, 2020, to *inter alia* consider and recommend the scheme for reduction of 1,22,57,688 (One Crore Twenty Two Lakhs Fifty Seven Thousand Six Hundred and Eighty Eight) equity shares of face value INR 10 (Indian Rupees Ten) per equity share of the Company held by Escorts Benefit and Welfare Trust ("**EBWT**") from the share capital of the Company, with a value of investment aggregating to INR 113,21,25,002 (Indian Rupees One Hundred Thirteen Crore Twenty One Lakhs Twenty Five Thousand and Two) without payment of any consideration to the EBWT, and making corresponding adjustments by way of debit to: (i) the outstanding paid-up equity share capital for INR 12,25,76,880 (Indian Rupees Twelve Crores Twenty Five Lakhs Seventy Six Thousand Eight Hundred and Eighty); and (ii) the securities premium account of the Company for INR 100,95,48,122 (Indian Rupees One Hundred Crore Ninety Five Lakhs Forty Eight Thousand One Hundred and Twenty Two) (the "**Scheme**"), to be implemented under Section 66 read with Section 52 of the Companies Act, 2013 ("**Act**") and other applicable provisions of the Act and the rules thereof, including any amendments thereof, as applicable.

This report of the Audit Committee is made in compliance with the requirement of the Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 on scheme of arrangements by listed entities issued by the Securities Exchange and Board of India ("**SEBI**") as amended from time to time ("**SEBI Circular**").

**ESCORTS LIMITED**

Corporate Secretarial & Law

Registered Office : 15/5, Mathura Road, Faridabad - 121 003, Haryana, India

Phone : +91- 129-2250222, Fax : +91-129-2250060

E-mail : corpsl@escorts.co.in, Website : www.escortsgroup.com

Corporate Identification Number - L74899HR1944PLC039088

The following documents were placed before the Audit Committee:

1. Draft Scheme of capital reduction, duly initialed by the Company Secretary of the Company for the purpose of identification;
2. Valuation report dated July 15, 2020 prepared and issued by M/s N. S. Kumar & Co., an independent Chartered Accountants firm (the "**Valuation Report**");
3. Fairness opinion dated July 15, 2020 prepared by Galactico Corporate Services Limited, a SEBI registered merchant banker, providing opinion on the fairness of the Valuation Report ("**Fairness Opinion**");
4. A certificate from the statutory auditors of the Company, M/s Walker Chandio & Co LLP, Chartered Accountants, ("**Company's Auditors**") confirming that the proposed accounting treatment in the books of the Company relating to reduction of share capital of the Company as set out in Clause 8 of the draft Scheme is outside the purview of the applicable accounting standards specified under Section 133 of the Companies Act, 2013. In the absence of specific guidance for accounting of transactions relating to reduction of share capital, the accounting treatment under Clause 8 of the Draft Scheme is construed to be in conformity with other generally accepted accounting principles in India ("**Auditors' Certificate**"); and

## 2 Rationale of the proposed Scheme of Arrangement:

The Audit Committee noted the rationale of the proposed reduction of capital of the Company as stated in the draft Scheme placed before this Committee, which included the following:-

- The proposed reduction of the equity share capital of Company is being undertaken in accordance with the provisions of Section 66 read with Section 52 of the Act and the rules made thereunder and specifically the National Company Law Tribunal (Procedure for Reduction of Share Capital of Company) Rules, 2016, which permit a company to undertake a reduction of its share capital in any manner, read with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the SEBI Circular.
- Pursuant to the orders dated August 9, 2012 and September 5, 2012, the High Court of Punjab and Haryana had approved the scheme of arrangement and amalgamation of Escorts Construction Equipment Limited, Escotrac Finance and Investment Private Limited, Escorts Finance Investments and Leasing Private Limited with the Company ("**2012 Scheme**").
- Upon effectiveness of the 2012 Scheme, *inter alia*, 3,73,00,031 (Three Crore Seventy Three Lakh and Thirty One) equity shares of face value INR 10 (Indian Rupees Ten) per equity share of the Company were issued / vested with EBWT for the sole benefit of the Company and its successors in interest. As of July 15, 2020, EBWT holds 3,37,00,031 (Three Crore Thirty Seven Lakh and Thirty One) equity shares of face value INR 10 (Indian Rupees Ten) per equity share of the Company amounting to 27.49% (Twenty Seven Point Forty Nine percent) of the total issued and paid up share capital of the Company ("**Trust Shares**").
- The Company has entered into a Share Subscription Agreement dated March 20, 2020 with Kubota Corporation, a company duly organised and existing under the laws of Japan and having its principal office at 2-47, Shikitsu Higashi 1-chome, Naniwa-ku, Osaka 556-8601, Japan ("**Investor**")

whereby the Investor has agreed to subscribe to 1,22,57,688 (One Crore Twenty Two Lakhs Fifty Seven Thousand Six Hundred and Eighty Eight) equity shares of face value INR 10 (Indian Rupees Ten) ("**Subscription Shares**") at INR 850/(Indian Rupees Eight Hundred and Fifty) per share amounting to 9.09% (Nine Point Zero Nine percent) of the post-issue share capital of the Company, subject to compliance with the provisions of the Act.

- The proposed preferential issue and allotment was approved by the Board of Directors of the Company keeping in view the future outlook of the Company, its growth targets and prospects, additional funding requirement for the purpose of further expansion of its agri machinery business.
- With the aim of attracting a globally reputed player such as the Investor in the Company to meet its business objectives and at the same time to ensure that there is no dilution in shareholding of the existing shareholders (including public shareholders) of the Company in the long run, the Company has agreed, subject to compliance with applicable laws, receipt of necessary regulatory approvals and allotment of the Subscription Shares to the Investor, to selectively reduce 1,22,57,688 (One Crore Twenty Two Lakhs Fifty Seven Thousand Six Hundred and Eighty Eight) equity shares of face value INR 10 (Indian Rupees Ten) per equity share held by EBWT, without payment of any consideration to the EBWT.
- The Board of Directors of the Company in its meeting held on March 20, 2020, *inter alia*, provided an in-principle approval to consider reducing the share capital of the Company by such number of equity shares which is equal to the number of Subscription Shares, by cancelling and extinguishing 1,22,57,688 (One Crore Twenty Two Lakhs Fifty Seven Thousand Six Hundred and Eighty Eight) equity shares held by EBWT, without payment of any consideration to the EBWT.
- The preferential allotment of equity shares to the Investor has already been approved by the equity shareholders of the Company on April 22, 2020 with requisite majority and the approval of Competition Commission of India has been received by Investor on July 10, 2020.
- The proposed reduction of equity share capital of the Company would not have any adverse effect on the creditors of the Company or the Company's ability to fulfil its commitments or meet its obligations in the ordinary course of business as there is no payout resulting from the proposed capital reduction.
- The reduction of capital in the manner proposed would be beneficial to all the shareholders of the Company as the same shall ensure that the total equity share capital of the Company remains unchanged even after the preferential allotment to the Investor.

### **3 The salient features of the Scheme are as follows:**

- The Scheme provides for -
  - a. Cancellation and extinguishment of 1,22,57,688 (One Crore Twenty Two Lakh Fifty Seven Thousand Six Hundred and Eighty Eight) fully paid up equity shares of INR 10(Indian Rupees Ten) each of the Company held by EBWT for the sole benefit of the Company without payment of any consideration to EBWT.
  - b. Setting off, to the extent applicable, the investment aggregating to the value of investment representing 1,22,57,688 (One Crore Twenty Two Lakh Fifty Seven Thousand Six Hundred and

Eighty Eight) equity shares of the Company recorded as Non-current investment in the books of the Company as 'Sole beneficiary interest in Escorts Benefit and Welfare Trust' as on the date of effectiveness of the Scheme against paid-up capital of such equity shares and Securities Premium Account of the Company by making corresponding adjustments by way of debit to: (i) the outstanding paid-up equity share capital for INR 12,25,76,880 (Indian Rupees Twelve Crores Twenty Five Lakhs Seventy Six Thousand Eight Hundred and Eighty); and (ii) the securities premium account of the Company for INR [100,95,00,000 ([Indian Rupees One Hundred Crore Ninety Five Lakhs])] on account of the reduction of share capital of the Company.

- The Scheme shall be effective from the date on which the certified copy of the order passed by the National Company Law Tribunal, Chandigarh Bench ("NCLT") sanctioning the Scheme is filed with the Registrar of Companies, National Capital Territory of Delhi and Haryana ("RoC").
- This Scheme is and shall be conditional upon and subject to:
  - a. the Scheme being approved by the board of directors of the Company and the members of the Company by way of requisite majority;
  - b. the Scheme being approved by the creditors of the Company as prescribed under the Act and/or as may be directed by NCLT and/or any other appropriate authority as may be applicable;
  - c. the Company obtaining the observation letter / no-objection letter from the relevant stock exchanges for the implementation of the Scheme;
  - d. the Scheme being sanctioned by NCLT under Section 66 and any other applicable provision of the Act;
  - e. certified copy of the order of NCLT sanctioning the Scheme being filed with the RoC by the Company; and
  - f. the requisite, consent, approval or permission of the Central Government or any other statutory or regulatory authority, if any, which by law may be necessary for the implementation of the Scheme.
- Upon Scheme becoming effective, the shareholding of EBWT in the Company shall reduce by 1,22,57,688 (One Crore Twenty Two Lakh Fifty Seven Thousand Six Hundred and Eighty Eight) fully paid up equity shares of INR 10(Indian Rupees Ten) each and these shares shall stand cancelled, extinguished and rendered invalid without any obligations and consequences in whatsoever nature to EBWT and the Company.
- The Audit Committee reviewed and noted that –
  - a. The Fairness Opinion confirmed the fairness of Valuation Report;
  - b. The Scheme does not envisage any payment to EBWT against cancellation of their fully paid up equity shares in the Company;
  - c. Upon effectiveness of the Scheme, total equity paid-up share capital of the Company shall remain unchanged even after the completion of preferential allotment of 1,22,57,688 (One Crore Twenty Two Lakhs Fifty Seven Thousand Six Hundred and Eighty Eight) equity shares of face value INR 10 (Rupees ten) by the Company to the Investor;

- d. The proposed accounting treatment in the books of the Company relating to reduction of share capital of the Company as set out in Clause 8 of the Draft Scheme is outside the purview of the applicable accounting standards specified under Section 133 of the Companies Act, 2013. In the absence of specific guidance for accounting of transactions relating to reduction of share capital, the accounting treatment under Clause 8 of the Draft Scheme is construed to be in conformity with other generally accepted accounting principles in India
- After independent assessment of the draft Scheme and taking into consideration the Valuation Report, Fairness Opinion and Auditors' Certificate, the members of the Audit Committee formed an opinion that the implementation of the proposed Scheme is in the interest of the Company and its shareholders, creditors and other stakeholders.

#### **4 Recommendation of the Audit Committee**

The Audit Committee hereby approves and recommends the Scheme for favorable consideration by the Board of Directors of the Company, stock exchange(s), SEBI and other appropriate authorities.

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

  
**P.H. Ravikumar  
(Chairman of Audit Committee)**

Place: Mumbai  
Dated: July 15, 2020