

MIL

MIL INDUSTRIES LIMITED

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REPORT OF THE AUDIT COMMITTEE OF MIL INDUSTRIES LIMITED ("MIL" OR "THE COMPANY") ON THE SCHEME OF ARRANGEMENT BETWEEN MIL INDUSTRIES LIMITED ("MIL" OR "DEMERGED COMPANY") AND MIL INDUSTRIES AND AEROSPACE LIMITED ("MIAL" OR "RESULTING COMPANY") AND THEIR SHAREHOLDERS

MEMBERS PRESENT: Mr. Noman H. Millwala, Chairman
Mr. Rajiv Sreedhar, Member

IN ATTENDANCE : Mr. VPK Mani, Company Secretary
Mr. N. Guruswamy, Chief Financial Officer

1. Background:

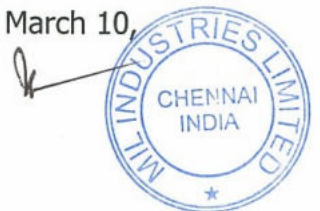
Meeting of the Audit Committee of MIL Industries Limited ("the demerged company") was held on 2nd December, 2019 to consider and recommend to the Board of Directors the modified scheme of arrangement under section 230 to 232 read with Section 66 of the Companies Act, 2013 and other applicable provisions of the companies Act, 2013 (the Scheme) between MIL Industries Limited ("MIL") and MIL Industries & Aerospace Limited ("MIAL"). Mr. Rajiv Sreedhar, member, stated that application made to the MSEI on 9th August 2019 under regulation 37 was withdrawn as the terms proposed by the company for demerger was not acceptable to MSEI. A modified scheme of arrangement has now been prepared and placed before the Committee for its consideration.

The Scheme provides for:

- i) Demerger of the PTFE Products Business of the Company into a separate business entity.
- ii) Issue of equity shares by MIAL to the equity shareholders of MIL as consideration for Demerger.

The Equity Shares of the company are listed on Metropolitan Stock Exchange of India Limited ("MSEI").

The report of the Audit Committee is made in order to comply with the requirements of the SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10,



2017 (as amended from time to time) after considering the following documents placed before the Committee.

- 1) Draft Scheme of Arrangement duly initialed by the Managing Director of the company for the purpose of identification.
- 2) Valuation report dated 02.12.2019, from Vinay Totla., Chartered Accountants (Registered Valuer), Hyderabad.
- 3) Certificate dated 02.12.2019 from the statutory auditors of the company regarding compliance of accounting treatment prescribed in the scheme;
- 4) Pre and Post demerger shareholding pattern.
- 5) Audited financial Statements of the Company as on 15th November 2019
- 6) The Company had forwarded the draft of the valuation report of Mr. Vinay Totla to a SEBI registered merchant banker Quintessence Enterprises Private Limited (QEPL), Hyderabad. The Managing Director had stated that Quintessence informed that they have reviewed the valuation report and believe that MIAL issuing one equity share of Rs. 10 each for every one equity shares of Rs. 10 each held by the shareholders in MIL is fair and reasonable from financial and commercial point of view to the holders of equity shares of MIL and that they promised to courier their signed report on 3rd December 2019.

2. Proposed Scheme

The salient features of the Draft Scheme of Arrangement are as under:

1. The Scheme provides for the transfer by way of demerger, of the PTFE Related Business ("**Demerged Undertaking**") of the Demerged Company to the Resulting Company, the consequent issue of shares by the Resulting Company to the shareholders of the Demerged Company in consideration of the transfer and vesting of the Demerged Undertaking in the Resulting Company.
2. The main lines of business are Rubber Lining and PTFE Products. These are two distinct lines of business with different nature of risks and competition necessitating different management approaches and focus. The competitive dynamics of these businesses are also different. The Audit Committee is of the opinion that the proposed arrangement would inter-alia achieve the following objectives:



(i) reorganise its corporate structure and integrate/consolidate its operations by placing the Rubber lining business in MIL and PTFE business in MIAL

(ii) Streamlining the revenues by creating specialised entities.

(iii) provide more flexibility in terms of business synergies in the Resulting company i.e. MIAL, and optimizing utilization of valuable resources which will enable enhance management focus on the different businesses being placed under separate entities, thereby leading to higher operational efficiency.

3. The Audit Committee reviewed the Share Exchange Ratio and recommend the following:

In consideration for the demerger of the PTFE business into MIAL in terms of the scheme and based on the Share Exchange Ratio suggested by Vinay Totla, Chartered Accountants and Fairness opinion provided by Quintessence Enterprises Private Limited (QEPL), Merchant Banker, MIAL will issue one equity share of the face value of Rs.10/- each for every one equity shares of face value of Rs.10/- each held in MIL on the Record Date (as may be determined in terms of the Scheme)

4. The demerger of the Demerged Undertaking from the Demerged Company to the Resulting Company shall comply with the provisions of section 2(19AA) of the Income tax Act, 1961, such that:

- (a) All the properties and assets of the Demerged Undertaking being transferred by the Demerged Company belonging to the Demerged Undertaking as on the Appointed Date will become the properties and assets of the Resulting Company.
- (b) All liabilities relatable to the Demerged Undertaking as on the Appointed Date shall become the liabilities of the Resulting Company.
- (c) The properties and liabilities relatable to the Demerged Undertaking being transferred by the Demerged Company to the Resulting Company shall be transferred to the Resulting Company at values appearing in the books of accounts of the Demerged Company immediately before the demerger.
- (d) MIAL will issue one equity share of the face value of Rs.10/- each for every one equity shares of face value of Rs.10/- each held in MIL.
- (e) The shareholders holding not less than 3/4ths (three fourths) in value of the shares in the Demerged Company will become the shareholders of the Resulting Company by virtue of the demerger.



- (f) The transfer of the Demerged Undertaking shall be on a going concern basis.
5. Further, pursuant to the Scheme, the Company shall account for the Demerger as per the applicable accounting principles prescribed under Indian Accounting Standard (Ind AS).
 6. Further, the Fairness opinion confirmed that the Share Exchange Ratio in the Valuation Report is fair to MIL and MIAL.
 7. The proposed date (i.e. Appointed Date) for the Demerger of the PTFE Business will be 15th November 2019 or such other date as may be fixed or approved by the National Company Law Tribunal or such other competent authority as may be applicable.
 8. Under the proposed scheme, all assets and liabilities, pertaining to PTFE Business of MIL, of whatsoever nature and where so ever situated, including the immovable properties shall without any further act or deed be transferred to and vested in MIAL as a going concern w.e.f. the appointed date 15th November 2019.

Recommendations of the Audit Committee

The Audit Committee after due deliberations and consideration of all the terms of the Scheme, Valuation Report, Fairness Opinion and the other points mentioned above, recommends the Draft Scheme of Arrangement for the favorable consideration by the Board of Directors of the Company, the stock exchange and SEBI.

For MIL INDUSTRIES LIMITED



NOMAN H. MILLWALA
CHAIRMAN OF AUDIT COMMITTEE



Place: Chennai
Date : 02.12.2019