

**REPORT OF THE AUDIT COMMITTEE OF DHAMPUR SUGAR MILLS LIMITED RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN DHAMPUR SUGAR MILLS LIMITED, DHAMPUR BIO ORGANICS LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS**

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**Members Present:**

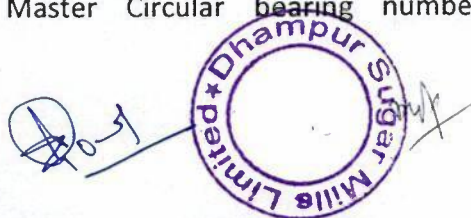
1. Shri Mahesh Prasad Mehrotra	Chairman of the Audit Committee
2. Shri Priya Brat	Member
3. Shri Ashwani Kumar Gupta	Member
4. Shri Gaurav Goel	Member
5. Shri Gautam Goel	Member

**Also Present:**

1. Mr. Akshay K Gupta, Advisor
2. Mr. Susheel Mehrotra, Chief Financial Officer
3. Mr. Nalin K Gupta, Joint Chief Financial Officer
4. Ms Aparna Goel, Company Secretary

**Background**

- 1.1 A meeting of the Audit Committee was held on 7<sup>th</sup> June, 2021 to consider and, if thought fit, recommend the proposed scheme of arrangement ("**Scheme**") between Dhampur Sugar Mills Limited ("**Demerged Company**") and Dhampur Bio Organics Limited ("**Resulting Company**") and the Demerged Company and the Resulting Company together referred to as the "**Companies**") and their respective shareholders and creditors pursuant to the provisions of Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 ("**Act**") and Section 2(19AA) of the Income-tax Act, 1961. The Scheme *inter alia* provides for the transfer by way of demerger of the Demerged Undertaking (as defined in the Scheme) from the Demerged Company to the Resulting Company, and the consequent issue of equity shares to shareholders of the Demerged Company by the Resulting Company ("**Demerger**"). Pursuant to the Demerger, all the shareholders of the Demerged Company will be allotted shares in the Resulting Company in proportion to their shareholding in the Demerged Company. The Scheme will be presented before the National Company Law Tribunal, Allahabad, (the "**NCLT**") under Sections 230-232 and other applicable provisions of the Act and the rules and regulations made thereunder, and will also be in compliance with Section 2(19AA) and other applicable provisions of the Income-tax Act, 1961.
- 1.2 The Scheme is subject to receipt of approvals of the board of directors, shareholders and creditors of Companies and approval of other regulatory authorities as may be required, including those of the National Stock Exchange of India Limited and BSE Limited (collectively "**Stock Exchanges**"), Securities and Exchange Board of India ("**SEBI**") and the NCLT.
- 1.3 This report of the Audit Committee is made in order to comply with the requirements of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**Listing Regulations**"), SEBI Master Circular bearing number



SEBI/HO/CFD/DIL1/CIR/P/2020/249 dated December 22, 2020 ("SEBI Master Circular") consolidating SEBI circulars dated March 10, 2017, March 23, 2017, May 26, 2017, September 21, 2017, January 3, 2018, September 12, 2019 and November 3, 2020 (collectively, the "SEBI Circulars").

1.4 The following documents were placed before the Audit Committee:

- (i) Draft Scheme;
- (ii) Share entitlement ratio report dated 7<sup>th</sup> June, 2021, issued by Anuradha Gupta, Registered Valuer - Securities and other Financial Assets, IBBI Registration No. IBBI / RV /02/2020/12790, jointly appointed by the Demerged Company and the Resulting Company for recommendation of share entitlement ratio under the Scheme ("**Share Entitlement Ratio Report**");
- (iii) Fairness Opinion dated 7<sup>th</sup> June, 2021 issued by Centrum Capital Limited, an Independent SEBI registered Category-I Merchant Banker, confirming that the share entitlement ratio in the Share Entitlement Ratio Report is fair to the equity shareholders ("**Fairness Opinion**");
- (iv) Certificate dated 7<sup>th</sup> June, 2021 issued by Atul Garg & Associates Chartered Accountants, Statutory Auditors of the Demerged Company confirming that the accounting treatment contained in the Scheme is in compliance *inter alia* with all the applicable accounting standards specified by the Central Government under Section 133 of the Act and other generally accepted accounting principles;
- (v) Audited financial statements of the Demerged Company for the year ending March 31, 2021, March 31, 2020 and March 31, 2019 along with audited financial statements of Resulting Company for the period ended March 31, 2021.

1.5 Upon these documents being placed, Mr. Gaurav Goel and Mr. Gautam Goel, being interested in the matter, chose to recuse themselves from any further proceedings and deliberations and abstain from voting on this matter. The Audit Committee then proceeded to discuss and deliberate upon the Scheme.

## 2. Proposed Scheme

### 2.1 Salient Features of the Scheme

The Audit Committee considered and observed that the draft Scheme provides for the following:

- (i) Demerger of the Demerged Undertaking of the Demerged Company and transfer of the same to the Resulting Company, being a wholly owned subsidiary of the Demerged Company;
- (ii) Issue and allotment of equity shares of the Resulting Company to all the shareholders of the Demerged Company in proportion to their shareholding in the Demerged Company,



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as consideration for the transfer of the Demerged Undertaking as per a recommended share entitlement ratio, in such manner that the shareholding of the Demerged Company and Resulting company mirror one another;

- (iii) Immediately upon the issue and allotment of equity shares of the Resulting Company to the shareholders of the Demerged Company, the existing equity shares of the Resulting Company shall stand cancelled;
- (iv) Following the completion of the issuance and allotment of shares of the Resulting Company to all the shareholders of the Demerged Company as above, subsequent transfer by the GV Promoter Group (as defined in the Scheme) of equity shares held by them in the Resulting Company to GT Promoter Group and transfer by the GT Promoter Group (as defined in the Scheme) of the equity shares held by them in the Demerged Company to GV Promoter Group, in accordance with the Scheme;
- (v) The Appointed Date means the opening of business hours on April 1, 2021 or such other date as the NCLT may direct/allow; and
- (vi) The Scheme will come into effect from the Effective Date (as defined in the Scheme), being the date on which all conditions and matters referred to in Clause 31 of the Scheme occur or have been fulfilled, obtained or waived, as applicable, in accordance with the Scheme.

## 2.2 Need of the Scheme of Arrangement

The Demerged Company was established in the year 1933 with a single sugar manufacturing unit at Dhampur, Uttar Pradesh, having a capacity of 300 tonnes of cane crushing per day (TCD). Over the years, the Demerged Company has grown manifold under the aegis of Goel families (being the promoters of the Demerged Company), supported by other stakeholders, by exponentially expanding its core business of sugar manufacturing as well as commencing various allied businesses.

Over the years the Demerged Company expanded its business by setting up necessary facilities for using by-products of sugar for co-generation of power; it also started supply of power to the state grid. The Demerged Company has also made commercial use of the other by-product, molasses, to manufacture chemicals, including rectified spirit. Once again capitalizing on favourable regulatory developments allowing mix of ethanol in petrol, the Demerged Company set up manufacturing facilities of ethanol having capacities of 400 kilo litres per day in its integrated sugar complexes at Dhampur and Asmoli.

The Demerged Company has now evolved from one sugar factory to five independent integrated sugar complexes having aggregate capacity of 45,500 tonnes cane crushing per day alongwith power co-generation, ethanol, potable alcohol and chemicals. Recognizing changing trends in consumer behavior, the Demerged Company has also introduced branded sugar under the brand name 'Dhampure'. The growth outlook for both, sugar (branded and unbranded), and ethanol as products is promising.

The journey thus far has been under the stewardship of the promoter-manager families





presently represented by Mr. Gaurav Goel and Mr. Gautam Goel, jointly who are both Managing Directors.

It is now proposed, by way of the Demerger, to segregate the management and ownership of the different integrated manufacturing facilities/units of the Demerged Company for cane crushing, co-generation of power and chemicals between the Demerged Company and Resulting Company without splitting any of such standalone manufacturing units. This will enable creation of two separate platforms for maximum exploitation of each of the above business opportunities through each of the Companies, including in particular by streamlining management and administration and enabling the pursuit of diverse and independent strategic aspirations, in a manner that unlocks and maximises value for all shareholders and drives future strategic growth under the overall Dhampur legacy.

### 2.3 Rationale of the Scheme

The Audit Committee noted the below rationale for the proposed Scheme:

- (i) The proposed Demerger will create opportunities for pursuing independent growth and expansion strategies in the segregated businesses and effectively unlock value of each of the manufacturing units. The Demerger also represents an opportunity for the public shareholders to exploit the individual potential of both Companies.
- (ii) The segregation will allow each of the companies to create a strong and distinctive platform with more focused management teams, which will enable greater flexibility to pursue long-term objectives and independent business strategies. The structure will streamline management and provide diversity in decisions regarding the use of respective cash flows for dividends, in capital expenditure or other reinvestment in their respective business, and in being able to explore varied investment opportunities and attract various investors and strategic partners.
- (iii) The Demerger at this juncture will also create a framework for succession planning including long term leadership of each Company with a view to ensure that the management and ownership model of the Demerged Company is not hindered by fragmentation of ownership and dispersed leadership over time as the promoter-manager family moves closer to a generational shift, which may be detrimental to the Demerged Company, business and stakeholders. Instead, following the Demerger, the management of each Company and ownership of the promoter-managers in each Company will remain consolidated within a family group, and will be lean and agile. This will also ensure long term stability including through continued maintenance of goodwill and harmony and allow for succession planning in an orderly and strategic manner without any business disruption.
- (iv) Following the Demerger, the shareholding of public shareholders will remain the same in both Companies and shareholder value, across Companies, will be preserved and remain unchanged on account of the Demerger.





## 2.4 Synergies of business of entities involved in Scheme:

As each manufacturing unit of the Demerged Company included within the Demerged Undertaking is independent, self-sufficient in raw material and standalone integrated, the units will continue to function with efficiency, efficacy and synergies after the Demerger, and the transition of the Demerged Undertaking from the Demerged Company to the Resulting Company will be largely seamless.

## 2.5 Cost-Benefit Analysis

Although the proposed Scheme would lead to incurring of some costs by the Companies towards implementation, the benefits of the said Scheme over a longer period would, in the view of the Audit Committee, outweigh such costs for the Demerged Company and Resulting Company.

## 2.6 Valuation Methods evaluated for the Share Entitlement Ratio

The Audit Committee noted that the Share Entitlement Ratio Report issued by Anuradha Gupta, Registered Valuer - Securities and other Financial Assets, IBBI Registration No. IBBI / RV /02/2020/12790, ("**Registered Valuer**"), inter-alia recommended the share entitlement ratio for the proposed demerger of the Demerged Undertaking into the Resulting Company.

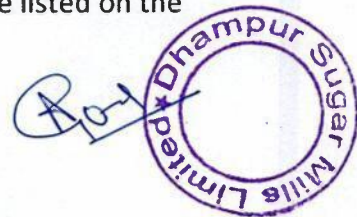
The Audit Committee noted from the Share Entitlement Ratio Report that the share entitlement ratio and the number of shares to be allotted pursuant to Demerger, under the draft scheme, is of no material relevance since there will be no loss of economic interest in the hands of shareholders of the Demerged Company. Accordingly, for the purpose of recommending a share entitlement ratio the Registered Valuer has not attempted to arrive at the absolute value of shares of each of the Demerged Company and Resulting Company.

The Audit Committee then noted the share entitlement ratio as under :

***"1 (One) fully paid up equity share of Dhampur Bio Organics Limited of INR 10 each shall be issued to the shareholders of Dhampur Sugar Mills Limited for every 1 (one) fully paid up equity share of Dhampur Sugar Mills Limited having face value of INR 10 each held by them."***

## 2.7 Impact of the Scheme on the Shareholders

The shareholders of the Demerged Company shall all be issued and allotted a proportionate number of shares in the Resulting Company, in consideration for the transfer of Demerged Undertaking pursuant to the Demerger in accordance with a share entitlement ratio recommended by an independent registered valuer. These shares of the Resulting Company to be issued to the shareholders of the Demerged Company are proposed to be listed on the



BSE Limited and the National Stock Exchange of India Limited, subject to receipt of necessary approvals. Thus, on the basis of the above, there is unlikely to be an adverse impact on the shareholders of the Demerged Company.

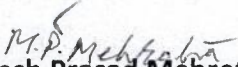
The Audit Committee also noted that the Scheme is subject to approval by the shareholders of the Demerged Company in accordance with the requirements set out under paragraphs 10(a) and 10(b) of Part-I of the SEBI Master Circular.

### 3. Recommendations of the Audit Committee

Taking into consideration all of the foregoing including the Scheme and its rationale and benefits, Share Entitlement Ratio Report, Fairness Opinion, and other documents, impact of the Scheme on the shareholders and other stakeholders and cost benefit analysis of the Scheme, the Audit Committee after due deliberation unanimously recommends the draft Scheme with the above share entitlement ratio to the Board of Directors of the Demerged Company, Stock Exchanges, SEBI and other appropriate authorities for their favorable consideration and approval.

This report therefore is issued by the Chairman in terms of the Audit Committee's authorization.

**By Order of the Audit Committee of Dhampur Sugar Mills Limited**

  
**Mahesh Prasad Mehrotra**  
**Chairman of the Audit Committee**

**Date: 7<sup>th</sup> June, 2021**

**Place: New Delhi**

