

REPORT OF THE AUDIT COMMITTEE OF MOTHERSON SUMI SYSTEMS LIMITED ("COMPANY") RECOMMENDING THE DRAFT COMPOSITE SCHEME OF AMALGAMATION AND ARRANGEMENT AMONGST THE COMPANY, A WHOLLY OWNED SUBSIDIARY OF THE COMPANY WHICH IS IN THE PROCESS OF BEING INCORPORATED UNDER THE NAME 'MOTHERSON SUMI WIRING INDIA LIMITED', SAMVARDHANA MOTHERSON INTERNATIONAL LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

To:

Board of Directors

Motherson Sumi Systems Limited

Unit - 705, C Wing, ONE BKC, G Block, Bandra Kurla Complex

Bandra East, Mumbai-400051, Maharashtra

1. Background

- 1.1. A meeting of the Audit Committee of Motherson Sumi Systems Limited ("**Company**") was held on July 2, 2020, *inter alia*. to consider and recommend to the Board of Directors of the Company, the composite scheme of amalgamation and arrangement ("**Scheme**") proposed to be undertaken amongst the Company, a wholly owned subsidiary of the Company which is in the process of being incorporated under the name 'Motherson Sumi Wiring India Limited' ("**Resulting Company**"), Samvardhana Motherson International Limited ("**SAMIL**") and their respective shareholders and creditors, under the provisions of Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 and other applicable laws.
- 1.2. The equity shares of the Company are listed on BSE Limited ("**BSE**") and the National Stock Exchange of India Limited ("**NSE**") (collectively "**Stock Exchanges**"). The Company will be filing the Scheme along with the necessary information/documents with the Stock Exchanges.
- 1.3. This report of the Audit Committee is made in order to comply with the requirements of Circular No. CFD/DIL3/CIR/2017/21, dated March 10, 2017, as amended from time to time, on schemes of arrangement involving listed companies, issued by the Securities and Exchange Board of India, as amended from time to time ("**SEBI Circular**").
- 1.4. Capitalized terms used but not defined in this Report shall have the meanings as ascribed to such terms under the Scheme.
- 1.5. This report is made by the Audit Committee after perusing *inter alia* the following documents:
- (a) The draft of the Scheme, initialed by the company secretary for the purposes of identification;
 - (b) The joint valuation report, dated July 2, 2020, issued by Price Waterhouse & Co. LLP, Chartered Accountants and BSR & Associates LLP, Chartered Accountants and the valuation report, dated July 2, 2020, issued by Incwert Advisory Private Limited, a registered valuer, describing the methodology adopted by them in arriving at, and recommending, the Demerger Share Entitlement Ratio and Merger Share Exchange Ratio ("**Valuation Reports**");
 - (c) The fairness opinions, both dated July 2, 2020, issued by Axis Capital Limited, a SEBI Registered (Category-I) Merchant Banker and DSP Merrill Lynch Limited, a SEBI Registered (Category-I) Merchant Banker, respectively, providing the fairness opinions on the Demerger Share Entitlement Ratio, Merger Share Exchange Ratio, recommended by Price Waterhouse & Co. LLP, Chartered Accountants and BSR & Associates LLP, Chartered Accountants in their joint valuation report dated July 2, 2020 ("**Fairness Opinions**"); and
 - (d) Auditor's certificate, dated July 2, 2020, prepared by M/s S.R. Batliboi & Co. LLP, Chartered Accountants (Firm Registration No. 301003E/E300005), the statutory

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auditors of the Company, regarding the accounting treatment contained in the Scheme, as specified under the SEBI Circular.

2. **Proposed Scheme**

2.1. The Audit Committee noted that the draft Scheme provides for the following:

- (a) demerger of the Domestic Wiring Harness Undertaking or DWH Undertaking into the Resulting Company; and
- (b) amalgamation of SAMIL with the Company by absorption, subsequent to the completion of the demerger referred to in (a).

2.2. The Audit Committee noted the rationale and benefits of the proposed Scheme, which *inter alia* are as follows:

- (a) Demerger of DWH Undertaking into the Resulting Company:
 - (i) creation of separate and distinct entities housing the DWH Undertaking and the remaining business;
 - (ii) dedicated and specialised management focus on the specific needs of the respective businesses; and
 - (iii) ensuring standalone focus on the domestic wiring harness business of the Company.
- (b) Amalgamation of SAMIL with the Company:
 - (i) consolidation of SAMIL with the Company, resulting in consolidation of the group's shareholdings in various entities and simplification of the group structure resulting in higher stakeholder accountability;
 - (ii) expanding the business of the Company from a diversified auto component product portfolio and foray into non-auto component business, thereby creating greater value for the shareholders/ stakeholders of the Company;
 - (iii) consolidation of 100% of the shareholding in Samvardhana Motiherson Automotive Systems Group BV in the Company;
 - (iv) expanding the business of the Company from a diversified auto component product portfolio and foray into non-auto component business, thereby creating greater value for the shareholders/ stakeholders of the Company;
 - (v) availability of increased resources, expertise and assets in the resultant company, which can be utilized for strengthening the customer base and servicing existing as well as prospective customers; and
 - (vi) cost reduction, retaining talent, optimization of support functions, efficiencies and productivity gains by pooling the resources of the Company and SAMIL, thereby significantly contributing to future growth and maximizing shareholders value.

2.3. The Audit Committee reviewed the Valuation Reports and noted the recommendations made therein. Further, the Fairness Opinions confirmed that the share entitlement ratio and share exchange ratio recommended in the Valuation Reports are fair to the shareholders of the Company.

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- 2.4. The share entitlement ratio and share exchange ratio recommended by the Valuation Reports and confirmed by the Fairness Opinions are as follows:
- (a) Upon the coming into effect of Section I of the Scheme and in consideration of the demerger of the DWH Undertaking into the Resulting Company pursuant to Section I of the Scheme, the Resulting Company shall, without any further act or deed and without receipt of any cash, issue and allot to the shareholders of the Company, as on Record Date 1, 1 equity share of Re. 1 each of the Resulting Company for every 1 equity share of Re. 1 each of the Company;
 - (b) Upon the coming into effect of Section II of the Scheme and in consideration of the amalgamation of SAMIL into and with the Company, pursuant to Section II of the Scheme, the Company shall, without any further act or deed and without receipt of any cash, issue and allot to the shareholders of SAMIL as on Record Date 2, 51 equity shares of Re. 1 each of the Company for every 10 equity shares of Rs. 10 each of SAMIL; and
- 2.5. The Audit Committee reviewed the Scheme and noted that the other salient features of the draft Scheme are as follows:
- (a) Upon Section I of the Scheme becoming effective, all assets, liabilities, contracts, rights, obligations, employees, etc., pertaining to the DWH Undertaking shall stand transferred to Resulting Company, as a going concern, with effect from Appointed Date 1 (i.e., April 1, 2021). Further, the Company will be entering into various agreements with the Resulting Company, prior to Effective Date 1, which will continue beyond Effective Date 1, pertaining to, (i) purchase of components by the Resulting Company such as wires, rubber parts, tools, jig, fixtures, and other components as required for the DWH Business and which are manufactured and/or procured by the Company, (ii) various functional support services to be provided by the Company to the Resulting Company, such as, design and development services, finance, logistics, human resource, marketing, etc.; (iii) management services to be provided by the Company to the Resulting Company; (iv) leasing and/or licensing and/or sub-leasing to the Resulting Company of various immovable property owned / leased by the Company on which the manufacturing units and other office premises of the DWH Undertaking are located; and (v) purchase wiring harness manufactured by the Resulting Company by the Company, its subsidiaries and joint ventures.
 - (b) Upon Section II of the Scheme becoming effective, SAMIL together with all its properties, assets, investments, liabilities, rights, benefits, interests and obligations, shall stand transferred to and vested in the Company, as a going concern, with effect from Appointed Date 2. Upon Section II of the Scheme becoming effective on the Effective Date 2, SAMIL shall stand dissolved without being wound-up, without any further act or deed and the name of SAMIL shall be struck off from the records of the Registrar of Companies ("RoC") and the Company shall make necessary fillings in this regard.
 - (c) The effectiveness of the Scheme is conditional upon the fulfillment of the actions specified in the Scheme, which include, (i) no-objections being received from the Stock Exchanges, in terms of the SEBI Circular, (ii) approval of the requisite majorities of the various classes of shareholders of the Company, SAMIL and the Resulting Company, (iii) the Scheme being approved by the majority of the public shareholders of the Company as required by the SEBI Circular, i.e., the votes cast by the public shareholders of the Company, in favour of the Scheme, being more than the number of votes cast by the public shareholders against it, (iv) the sanction of the Scheme by the NCLT, (v) Certified copies of the order of the NCLT sanctioning the Scheme being filed with the RoC, by each of the Company, SAMIL and the Resulting Company; and (vi) obtaining such other approvals and sanctions as may be required by applicable law or contract, in respect to the Scheme.

- (d) The equity shares issued by the Resulting Company and the Company, pursuant to the Scheme, are proposed to be listed on the Stock Exchanges, in terms of the Scheme and the SEBI Circular.

3. **Recommendation of the Audit Committee**

The Audit Committee, after due deliberations and due consideration of all the terms of the draft Scheme and the aforementioned documents, recommends the draft Scheme for favorable consideration by the Board of Directors of the Company, for its consideration and approval.

By Order of the Audit Committee

For and on behalf of **Motherhood Sumi Systems Limited**



Name: S.C. Tripathi
Designation: Independent Director and Chairman of Audit Committee
Date: July 2, 2020
Place: Noida

For Motherhood Sumi Systems Limited



Alok Goel
Company Secretary