



REPORT OF THE AUDIT COMMITTEE OF UTTAM GALVA STEELS LIMITED RECOMMENDING DRAFT SCHEME OF AMALGAMTION

MEMBERS:

Shri S T Parikh	-	Director
Shri P G Kakodkar	-	Director
Shri O P Gahrotra	-	Director

IN ATTENDANCE:

Shri S V Naik	-	Advisor
Shri R Agrawal	-	Sr. Vice President & Company Secretary

1. Background:

- I. A meeting of the Audit Committee of the Company was held on 21st October, 2013 to consider and recommend the proposed Amalgamation of Shree Uttam Steel and Power Limited ("SUSPL") with the Company implemented in terms of a Scheme of Amalgamation ("Scheme") to be entered into between SUSPL, the Company and their respective Shareholders and Creditors under Sections 391 to 394 and other applicable provisions of the Companies Act, 1956.
- II. SUSPL is an unlisted Company and was incorporated on the October 18, 2006, having its Registered Office at Uttam House, 69, P. D'Mello Road, Mumbai - 400009.
- III. This report of the Audit Committee is made in order to comply with the requirements under the circular number CIR/CFD/DIL/5/2013 dated February 4, 2013 read with circular number CIRJCFD/D1L1812013 dated May 21, 2013 (which provides clarifications with respect to the aforementioned circular), both issued by the Securities and Exchange Board of India ("SEBI Circulars"). As per the SEBI Circulars, it is mandatory for an Audit Committee of a listed company to recommend the Scheme of Arrangement, taking into consideration, *inter alia*, the Valuation Report by an independent Chartered Accountant.

2. Proposed Scheme:

- I. The Audit Committee noted the rationale and the benefits of the Scheme, which are as follows:
 - a) UGSL is engaged in manufacturing of intermediate steel products viz Cold Rolled Steel and Galvanised Products and Colour Coated Products Coils and Sheets and entire gamut of steel products including other value added products. The market segment include Appliance, General Engineering, Automative, Construction, Packaging and Others.
 - b) SUSPL is in business of trading in steel and is setting up integrated steel plant for manufacturing of steel and related products.



S. T. Parikh



- c) Both the Companies are associated with the each other. The management of both the Companies is of view that capital investment required in setting up of production facilities is substantially high and it may not be possible to raise high capital from present shareholders of SUSPL.
 - d) SUSPL and UGSL being compatible in terms of nature of their business the amalgamation will result into consolidation of activities of group into single entity which are presently being multiplied because of it being separate entities
 - e) The Amalgamation will provide significant impetus to growth of business of UGSL and able to access infrastructure which are being created by SUSPL for setting up an integral steel plant.
 - f) The amalgamation will result in economies of scale, reduction in overheads, administrative, managerial and other expenditure, operational rationalisation, organizational efficiency, and optimal utilisation of various resources and thereby give inherent strength to improve and expand and thus withstand competition from domestic as well as international markets.
 - g) Duplication of administrative functions will be eliminated together with the multiple record-keeping, resulting in reduced expenditure.
 - h) The amalgamation will result in a significant reduction in the multiplicity of legal and regulatory compliances required at present to be carried out by both SUSPL and UGSL.
 - i) The Amalgamation will result in the larger pool of financial and other resources, which would strengthen financial position of the merged entity and result in increasing leveraging capacity of the merged entity and facilitating optimum utilisation of assets and other resources.
- II. The Audit Committee noted that the salient features of the Scheme are:
- a) the appointed date of the Scheme is proposed to be April 1, 2013;
 - b) all assets and liabilities of SUSPL shall stand transferred to and become assets and liabilities of the Company;
 - c) all shareholders of SUSPL will receive shares of the Company as per the Share Exchange Ratio (*as defined hereinafter*) approved by the board of directors of SUSPL and the Company;
 - d) in case any shareholder's holding in SUSPL is such that the shareholder becomes entitled to a fraction of an equity share of the Company, the Company shall not issue fractional share certificates to such shareholder and such fractional holding shall stand cancelled;
 - e) upon effectiveness of the Scheme, SUSPL shall stand dissolved without winding- up;
 - f) upon effectiveness of the Scheme, the Authorised Share Capital of the Company shall automatically increase, without any further act, instrument or deed on the part of the Company, by the authorised share capital of SUSPL.
- III. The Company and SUSPL jointly appointed S. H. Bathiya & Associates an independent Chartered Accountants, for the purpose of preparing a Valuation Report containing the Share Exchange Ratio. The Company also appointed Anand Rathi Advisors Limited, an independent Merchant Banker, for providing a "Fairness Opinion" on the Valuation Report. The Valuation Report along with other documents had previously been sent to Anand Rathi Advisors Limited, for providing a "Fairness Opinion" on the Valuation Report.



S. H. Bathiya



- IV. At the Audit Committee meeting, the Chairman of Audit Committee provided detailed update to the other members of the Audit Committee. Further, the Valuation Report dated 21st October, 2013 prepared by S. H. Bathiya & Associates which included the Share Exchange Ratio ("Valuation Report") was also placed before the Audit Committee.
- V. The Audit Committee reviewed the Valuation Report in detail and noted that the Valuation Report recommended that each member of SUSPL be issued and allotted, 11 (Eleven) Equity Shares of the Company of the face value of Rs. 10 (Rupees Ten Only) each (credited as fully paid up) for every 1 (One) Equity Shares of the face value of Rs. 10 (Rupees Ten Only) each (credited as fully paid up) held by such member of SUSPL (Share Exchange Ratio").
- VI. The following documents were placed before the Audit Committee:
- a) a draft of the Scheme, dully initialed by the Company Secretary of the Company for the purpose of identification;
 - b) the Valuation Report dated 21st October, 2013 prepared by S. H. Bathiya & Associates an independent Chartered Accountants, describing the methodology adopted by them in arriving at the Share Exchange Ratio;
 - c) Fairness Opinion dated 21st October, 2013 prepared by Anand Rathi Advisors Limited, an independent Merchant Banker providing the Fairness Opinion, on the Share Exchange Ratio recommended in the valuation report prepared by S. H. Bathiya & Associates ("Fairness Opinion"); and
 - d) Certificate dated 21st October, 2013 obtained from the Statutory Auditors of the Company viz. Prakkash Muni & Associates on the accounting treatment prescribed in the Scheme.

3. Considerations and Recommendation of the Audit Committee

- I. The Audit Committee has reviewed the abovementioned documents and noted that the Valuation Report recommended that each member of SUSPL be issued and allotted, 11 (Eleven) Equity Shares of the Company of the face value of Rs. 10/- (Rupees Ten Only) each (credited as fully paid up) for every 1 (One) Equity Shares of the face value of Rs. 10/- (Rupees Ten Only) each (credited as fully paid up) held by such member of SUSPL, as contemplated in the draft Scheme. Further, the Fairness Opinion confirmed that the Share Exchange Ratio in the Valuation Report is fair to the Shareholders of the Company.
- II. After considering the Valuation Report and the Fairness Opinion, appraisal of the methodology and basis followed in the Valuation Report and going through the workings in detail, the Audit Committee is satisfied with the valuation and finds that the Share Exchange Ratio is fair and reasonable. Further, the Audit Committee is of the opinion that there is no adverse effect to the Public Shareholders of the Company pursuant to the Scheme. The Audit Committee also confirms its concurrence with the rationale for the Scheme.



S. T. Paul



- III. After discussions and consideration of the abovementioned proposal and based on the information, observation and documents placed before it, including the Valuation Report, the Audit Committee, at its meeting held on 21st October, 2013 unanimously approved the Scheme and passed the following resolution:-

"RESOLVED THAT the Audit Committee be and is hereby approve and accept the Valuation Report prepared and submitted by S. H. Bathiya & Associates and Fairness Opinion prepared and submitted by Anand Rathi Advisors Limited and the same be recommended to the Board of Directors of the Company for its consideration and approval.

RESOLVED FURTHER THAT the share exchange ratio of 11 (Eleven) Equity Shares of the Company of the face value of Rs. 10/- (Rupees Ten Only) each credited as fully paid-up for every 1 (One) Equity Shares of the face value of Rs. 10/- (Rupees Ten only) each credited as fully paid-up held by such Member in Shree Uttam Steel and Power Limited be and is hereby approved and the same be recommended to the Board of Directors of the Company for its consideration and approval.

RESOLVED FURTHER THAT the Amalgamation of Shree Uttam Steel and Power Limited with the Company under Sections 391 to 394 and other applicable provisions of the Companies Act, 1956 as detailed in the draft Scheme placed before the Audit Committee and initialed by the Company Secretary be and is hereby approved and recommended to be placed for consideration before the Board of Directors of the Company."

By Order of the Audit Committee

For and on Behalf of
Uttam Galva Steels Limited


S T Parikh
Chairman, Audit Committee



Place: Mumbai
Date: 21st October, 2013