

**REPORT OF THE AUDIT COMMITTEE OF TVS MOTOR COMPANY LIMITED
 RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN TVS
 MOTOR COMPANY LIMITED AND ITS SHAREHOLDERS AT ITS MEETING HELD
 ON WEDNESDAY, THE 20TH MARCH 2024 THROUGH VIDEO CONFERENCING**

The following members of the Audit Committee were present:

1. Mr C R Dua, Chairman
2. Dr. Deepali Pant Joshi
3. Mr K N Radhakrishnan

By invitation:

Mr K Gopala Desikan, Chief Financial Officer

In attendance:

Mr K S Srinivasan, Company Secretary

With the unanimous consent of all the Members, Mr C R Dua occupied the Chair.

1. Background

- 1.1. A meeting of the Audit Committee of TVS Motor Company Limited ("**Company**" or "**TVSM**") was held on 20th March 2024 to consider and recommend the proposed draft Scheme of Arrangement between the Company and its shareholders under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 ("**Act**") ("**Scheme**").
- 1.2. The Company is incorporated under the provisions of the Companies Act, 1956. The Company is a reputed two and three-wheeler manufacturer globally, championing progress through sustainable mobility with its four state-of-the-art manufacturing facilities in Hosur, Mysuru and Nalagarh in India and Karawang in Indonesia. The equity shares of the Company are listed on BSE Limited ("**BSE**") and the National Stock Exchange of India Limited ("**NSE**") (hereinafter collectively referred to as "**Stock Exchanges**"). Further, the non-convertible debentures ("**NCDs**") of the Company are listed on the NSE.
- 1.3. This report of the Audit Committee is made to comply with the requirements of the Securities and Exchange Board of India ("**SEBI**") (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**Listing Regulations**") and Clause 2 (c) of Para A of Part I of SEBI Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023 ("**SEBI Master Circular**"), and as amended from time to time.
- 1.4. The following documents, duly initialed by the Company Secretary of the Company for the purpose of identification, were placed before the Audit Committee of the Company:

- (a) Draft Scheme;
- (b) Valuation Report dated 20th March 2024 issued by M/s. Bansi S Mehta Valuers LLP (Registration No. IBBI/RV-E/06/2022/172), Registered Valuer, in connection with the NCDs of the Company ("**Valuation Report**");
- (c) Fairness Opinion dated 20th March 2024 issued by PL Capital Markets Private Limited, (Registration No: INM000011237), a Category-I Merchant Banker, in connection with the NCDs of the Company ("**Fairness Opinion**");
- (d) Statutory Auditors' certificate of M/s. Sundaram & Srinivasan, Chartered Accountants, Chartered Accountants (ICAI Firm Registration No.004207S) (i) certifying the payment/ repayment capability of the Company against outstanding listed NCDs of the Company; and (ii) confirming that the accounting treatment mentioned in the Scheme is in accordance with Section 133 of the Act and other generally accepted accounting principles; and
- (e) Statutory Auditors' certificate of M/s. Sundaram & Srinivasan, Chartered Accountants, Chartered Accountants (ICAI Firm Registration No.004207S) certifying the non-applicability of requirements stated in Paragraph 10(b) read with Paragraph 10(a) of Part I of the SEBI Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023.

2. Salient Features of the Scheme

2.1. The Audit Committee noted the brief particulars of the Scheme as under:

- (a) The Scheme is presented under Sections 230 to 232 and other applicable provisions of the Act and provides for the issuance of Preference Shares (*as defined in the Scheme*) by way of bonus to the shareholders of the Company by utilising the general reserves/ retained earnings of the Company;
- (b) The Appointed Date as defined in the Scheme means Effective Date. The Effective Date as defined in the Scheme means the date on which last of the conditions specified in Clause 12 (Conditions Precedent) of the Scheme are complied with or waived, as applicable;
- (c) The Company shall issue and allot by way of bonus, 4 Preference Shares of face value of INR 10 each fully paid up, to each equity shareholder of the Company holding 1 equity share of INR 1 each fully paid up whose name is recorded in the register of members of the Company and/or the records of the depository(ies) as equity shareholder of the Company on the Record Date (*as defined in the Scheme*); and

- (d) The effectiveness of the Scheme is contingent upon certain conditions as mentioned in the Scheme.

3. Proposed Scheme of Arrangement

3.1. Need for the Arrangement and Rationale of the Scheme

The Audit Committee of the Company noted the rationale and the benefits of the Scheme which, *inter-alia*, are as follows:

- (i) *"The Company has built up substantial surplus reserves, over the years from its retained profits. The surplus reserves are well above the Company's current and likely immediate future business needs.*
- (ii) *Further, upon taking into consideration the Company's capability to generate strong free cash flow in the foreseeable future and the surplus reserves being more than what is needed to fund the Company's future growth, the Company is of the view that these excess funds can be optimally utilized to reward its shareholders.*
- (iii) *Accordingly, the Company has proposed, inter alia, to distribute such funds amongst its shareholders by issuing fully paid up Preference Shares by way of bonus in terms of this Scheme.*
- (iv) *The Preference Shares will be a listed security and while giving near-cash (traded, encashable) instrument in the hands of shareholders, give increased flexibility to the Company in managing its liquidity until redemption.*
- (v) *In view of the aforesaid factors, the Company has concluded that it can optimally utilize its surplus reserves by distributing a considerable portion of the same to its equity shareholders. In order to maintain high level of corporate governance and transparency, the Company proposes issuance of Preference Shares by way of bonus to its equity shareholders under Sections 230 to 232 of the Act which will be subject to necessary statutory, regulatory and corporate approvals.*

The proposed Scheme is in the interest of the shareholders of the Company and it is not detrimental to the interest of other stakeholders."

3.2. Synergies of business of the entities involved in the Scheme

The present Scheme is an arrangement between the Company and its shareholders for issuance of Preference Shares of the Company by way of bonus. Thus, there is no question of synergies of business of the entities involved in the Scheme.

3.3. Impact of the Scheme on the Company, its shareholders and NCD holders

- (a) In terms of the Scheme, the Company will issue Preference Shares by way of bonus to all its shareholders (promoter and non-promoter) by utilizing its general reserves/ retained earnings;
- (b) The rights and interests of the shareholders of the Company will not be prejudicially affected by the Scheme, and there will be no change in the economic interest of the shareholders of the Company, before and after the Scheme;
- (c) Pursuant to the Scheme, there will be no change in the equity shareholding pattern of the Company. The Preference Shares issued will be listed on the Stock Exchanges;
- (d) The proposed Scheme is in the interest of the shareholders of the Company;
- (e) The Scheme is expected to be beneficial to the Company and its shareholders, leading to opportunity for growth and value creation in the long run and maximizing the value and returns to the shareholders, achieving cost and operational efficiencies;
- (f) Pursuant to the Scheme, the NCD holders of the Company will continue to hold the NCDs of the Company, without any interruption, on the same terms, including the coupon rate, the tenure, the redemption price, quantum, and nature of security, ISIN, etc. Pursuant to the Scheme, there will be no change in the terms and conditions of the NCDs of the Company as set out in Schedule 2 of the Scheme. Accordingly, the interests of NCD holders is protected; and
- (g) Upon effectiveness of the Scheme, the said NCDs will continue to be freely tradable and listed on the Stock Exchanges, thereby providing liquidity to the holders of the NCDs and accordingly, no exit offer is provided to holders of NCDs of the Company. Therefore, the Scheme will not have any adverse impact on the holders of the NCDs of the Company.

3.4. Cost benefit analysis of the Scheme

The Audit Committee also noted that the Preference Shares proposed to be issued by the Company will carry a coupon of 6% per annum and will be listed on the Stock Exchanges.

The Audit Committee *inter alia* discussed and deliberated,

- each equity shareholder of the Company will get 4 (Four) Preference Shares of the Company for every 1 equity share of INR 1 each fully paid up held in the Company, which will be listed on the Stock Exchanges;
- the details of tax costs in the hands of the Company and shareholders, pursuant to the bonus issue of Preference Shares; and
- listing of Preference Shares of the Company would improve the liquidity of shares and thereby the public shareholders would get benefited.

While the Scheme would lead to incurring of some costs towards its implementation, however, the benefits of the Scheme over a longer period would far outweigh such costs for the stakeholders of the Company.

4. Recommendation of the Audit Committee

The Audit Committee *inter alia* taking into consideration the draft Scheme, Valuation Report, Fairness Opinion and certificate(s) issued by the Statutory Auditors of the Company, need and rationale of the Scheme, impact of the Scheme on the Company, its shareholders and NCD holders, cost benefit analysis of the Scheme, hereby recommends the Scheme to the Board of Directors of the Company for its consideration and approval.

In order for the Company to comply with the extant regulations applicable to the listed companies undertaking any scheme of arrangement under the Act and SEBI Master Circular, this report of the Audit Committee may please be taken on record by the Board while considering the Scheme for approval and further authorisations.

On behalf of the Audit Committee of
TVS MOTOR COMPANY LIMITED



C R Dua
Chairman, Audit Committee

Place : New Delhi
Date : 20th March 2024.