

Chembond Chemicals Limited

REPORT OF THE AUDIT COMMITTEE OF CHEMBOND CHEMICALS LIMITED FOR RECOMMENDING THE DRAFT COMPOSITE SCHEME OF ARRANGEMENT BETWEEN CHEMBOND CHEMICALS LIMITED AND RESULTING COMPANY, TRANSFEROR COMPANY NO. 1, TRANSFEROR COMPANY NO. 2, TRANSFEROR COMPANY NO. 3 AND TRANSFEROR COMPANY NO. 4 AND THEIR RESPECTIVE SHAREHOLDERS UNDER SECTION 230 TO 232 AND OTHER APPLICABLE PROVISIONS OF THE COMPANIES ACT, 2013 AT ITS MEETING HELD ON TUESDAY, DECEMBER 12, 2023 AT 11.15 A.M. AT MUMBAI

The following Audit Committee Members were present:

Mr. Mahendra K. Ghelani	Independent Director – Chairperson
Mr. Sushil U. Lakhani	Independent Director – Member
Mr. Nirmal V. Shah	Vice-Chairman & Managing Director - Member
Mrs. Saraswati Sankar	Independent Director – Member

The following were also present during the discussion on proposed Scheme:

By Invitation

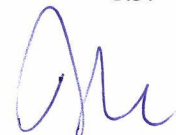
Mr. Sameer V. Shah	Managing Director
Mrs. Rashmi Gavli	Chief Financial Officer

In Attendance

Mrs. Suchita Singh, Company Secretary and Compliance Officer

1. Background

- 1.1. A meeting of Audit Committee of Company was held on Tuesday, December 12, 2023 to consider and, if thought fit, recommend to the Board of the Directors of the Company, the proposed Composite Scheme of Arrangement (“Scheme”) between Chembond Chemicals Limited (“Company” or “Demerged Company” or “Transferee Company”) and Chembond Chemical Specialties Limited (“Resulting Company”), Chembond Clean Water Technologies Limited (“Transferor Company No. 1”), Chembond Material Technologies Private Limited (“Transferor Company No. 2”), Phiroze Sethna Private Limited (“Transferor Company No. 3”) Gramos Chemicals (India) Private Limited (“Transferor Company No. 4”) and their respective shareholders pursuant to Section 230 to 232 read with Section 66 and other applicable provisions of the Companies Act, 2013 (“Act”).
- 1.2. The Company is a listed public limited Company within the meaning of the Act. The equity shares of the Company are listed on BSE Limited (“BSE”) and National Stock Exchange of India Limited (“NSE”), (BSE and NSE are collectively referred to as the “Stock Exchanges”)
- 1.3. Resulting Company is a public limited company incorporated under the Companies Act, 2013 as wholly owned subsidiary of the Company.




Chembond Chemicals Limited

- 1.4. Transferor Company No. 1 is a public limited company incorporated under the Companies Act, 1956 and is an indirect wholly owned subsidiary of the Company.
- 1.5. Transferor Company No. 2 is a private limited company incorporated under the Companies Act, 1956 and is wholly owned subsidiary of the Company.
- 1.6. Transferor Company No. 3 is a private limited company incorporated under the Companies Act, 1956 and is wholly owned subsidiary of the Company.
- 1.7. Transferor Company No. 4 is a private limited company incorporated under the Companies Act, 1956 and is wholly owned subsidiary of the Transferor Company No. 3 and indirect wholly owned subsidiary of the Company.
- 1.8. The capitalised terms not defined in this report shall have the same meaning as ascribed to them in the draft Scheme.
- 1.9. This Report of the Independent Directors Committee is made to comply with the requirements of Securities and Exchange Board of India (Listing obligations and Disclosure Requirements) Regulations, 2015 (“SEBI LODR Regulations”) and master circular in relation to scheme of arrangement issued by Securities and Exchange Board of India (“SEBI”) having No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 issued by SEBI on June 20, 2023 covering all circulars issued by SEBI in relation to scheme of arrangement including any amendments or modifications thereof, and any other circular issued pursuant to Regulations 11, 37 and 94 of SEBI LODR Regulations considering following:
 - i. Draft Scheme of Arrangement, duly initialled by the Director of the Company for the purpose of identification;
 - ii. Fair Share Entitlement Ratio Report dated December 12, 2023 issued by SSPA & Co., an Independent Registered Valuer (Registration No. IBBI/RV/06/2018/10140) (“Registered Valuer”) appointed for recommending the fair share entitlement ratio for the purpose of the draft Scheme;
 - iii. Fairness Opinion Report dated December 12, 2023 issued by Vivro Financial Services Private Limited, Independent SEBI Registered Merchant Banker (Registration No. INM000010122) providing opinion (“Fairness Opinion”) on the share entitlement ratio recommended in the Fair Share Entitlement Ratio Report issued by the Registered Valuer; and
 - iv. Draft certificate to the effect that the Scheme is in compliance with applicable Accounting Standards specified by the Central Government under Section 133 of the Act, from the Statutory Auditors of the Demerged Company/Transferee Company i.e., Bathiya & Associates LLP, Chartered Accountants (ICAI Firm’s Registration No. 101046W/W100063).

2. Proposed Scheme

- 2.1. The Scheme, inter-alia, provides the following:
 - i. Demerger, transfer and vesting of ‘CC & WT Business’ of the Company into Resulting Company;

Chembond Chemicals Limited

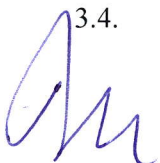
- ii. Amalgamation of Transferor Company No. 1 with the Resulting Company;
- iii. Amalgamation of Transferor Company No. 2, Transferor Company No. 3 and Transferor Company No. 4 (“Transferor Companies”) with the Company; and
- iv. Various other matters consequential or otherwise integrally connected herewith.

- 2.2. Appointed Date of the draft Scheme is commencement of the business hours of April 1, 2024.
- 2.3. The Effective Date for the draft Scheme means the day on which last of the conditions specified in the draft Scheme are complied with.
- 2.4. The draft Scheme would be subject to the sanction or approval of the National Company Law Tribunal, SEBI, Stock Exchanges, Shareholders, Creditors and other Appropriate Authorities (as defined in the draft Scheme).

3. Salient features of the Scheme

- 3.1. The Scheme provides to restructure the various business of the Demerged Company and its subsidiaries (direct/ indirect) as mentioned in above point.
- 3.2. Appointed date for proposed draft Scheme is fixed as commencement of business hours of April 1, 2024.
- 3.3. The Scheme envisages the demerger of the Demerged Undertaking into the Resulting Company (elaborated in Section I) in compliance with the provisions of Section 2(19AA) of the Income Tax Act, 1961 (“IT Act”), such that:
 - a. all the property of the Demerged Undertaking, being transferred by the Demerged Company immediately before the demerger, becomes the property of the Resulting Company by virtue of the demerger;
 - b. all the liabilities relating to the Demerged Undertaking, being transferred by the Demerged Company immediately before the demerger, become the liabilities of the Resulting Company by virtue of the demerger;
 - c. the property and the liabilities of the Demerged Undertaking being transferred by the Demerged Company are transferred at values appearing in its books of account immediately before the demerger;
 - d. the Resulting Company issues, in consideration of the demerger, its shares to the shareholders of the Demerged Company;
 - e. the transfer of the Demerged Undertaking will be on a going concern basis;
 - f. the demerger will be in accordance with the conditions, if any, notified under sub-section (5) of section 72A of the IT Act, by the Central Government in this behalf.

- 3.4. Upon the demerger of the Demerged Undertaking of the Demerged Company and its transfer to and vesting in the Resulting Company pursuant to the Scheme becoming effective on the Effective Date,



Chembond Chemicals Limited

the Resulting Company will issue shares to the shareholders of the Demerged Company on the Record Date, in accordance with the Share Exchange Ratio approved by the Board of Directors of each of the Demerged Company and the Resulting Company and pursuant to Sections 230 to 232 and other relevant provisions of the Act in the manner provided for in this Scheme and in compliance with the provisions of the IT Act.

- 3.5. Such demerger will be effective from the Appointed Date but will be operative from the Effective Date.
- 3.6. The Scheme also envisages the amalgamation of the Transferor Company No. 1 with and into the Resulting Company (“Amalgamation – I”) and amalgamation of Transferor Companies with and into the Transferee Company (“Amalgamation – II”) in compliance with the provisions of Section 2(1B) of the IT Act, such that:
- all the properties of the Transferor Company No. 1 immediately before the amalgamation, shall become the property of the Resulting Company by virtue of Amalgamation – I and all the properties of the Transferor Companies immediately before the amalgamation, shall become the property of the Transferee Company, by virtue of Amalgamation - II;
 - all the liabilities of the Transferor Company No. 1 immediately before the amalgamation, shall become the liabilities of the Resulting Company by virtue of Amalgamation – I and all the liabilities of the Transferor Companies immediately before the amalgamation, shall become the liabilities of the Transferee Company, by virtue of Amalgamation - II;
 - Transferor Company No. 1 will become an indirect wholly owned subsidiary of the Resulting Company pursuant to the demerger and hence, in consideration for Amalgamation - I, the Resulting Company shall not issue any shares under the Scheme. The existing shareholding of the Transferor Company No. 1 will get cancelled pursuant to the Scheme;
 - Transferor Companies are wholly owned subsidiaries and/or step-down subsidiaries of the Transferee Company, and hence, in consideration, the Transferee Company shall not issue any shares under the Scheme. The existing shareholding of the Transferor Companies will get cancelled pursuant to the Scheme.
- 3.7. Amalgamation – I and Amalgamation - II will be effective from the Appointed Date but will be operative from the Effective Date.

4. Rationale of Scheme

- 4.1. The Audit Committee noted the following rationale of the Scheme:
- 4.2. The Independent Directors Committee noted the following rationale of the Scheme:
- 4.2.1. The Chembond group, represented by the Demerged Company, viz. Chembond Chemicals Limited and its subsidiaries, step-down subsidiaries and step-down associates, is a well-known name in India and engaged in manufacturing a diverse range of specialty chemicals and all products like water treatment, metal treatment, construction chemicals, high performance coatings, animal health, industrial adhesives and sealants and tolling. The



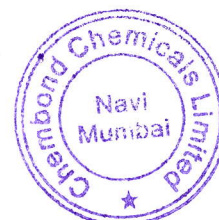
Chembond Chemicals Limited

Demerged Company has excellent infrastructure facilities like a well-equipped R & D laboratory, multiple regional offices, and production plants, well trained personnel and references across several business segments from the best-known companies in the field. The Demerged Company has come a long way and evolved from being a fledging start-up to India's leading specialty chemicals manufacturer. Based on the aforesaid, the Demerged Company's several businesses carried on by itself and through its subsidiary and step-down subsidiary companies and associate companies can broadly be segregated into the following areas: (i) Water Technologies; (ii) Material Technologies; (iii) Construction Chemicals; (iv) Biotechnology; (v) Distribution; (vi) Tolling (vii) Adhesives; and (viii) Industrial Sealants.

4.2.2. Each of the several businesses carried on by the Demerged Company by itself and through its subsidiaries, step-down subsidiaries and step-down associate, including CC & WT Business has significant potential for growth. The nature of risk and competition involved in each of these businesses is distinct from others and consequently each business or undertaking can attract a different set of investors, strategic partners, lenders, and other stakeholders. There are also differences in the manner in which each of these businesses are required to be managed. In order to enable distinct focus of investors to invest in some of the key businesses and to lend greater focus to the operation of each of its diverse businesses, Demerged Company proposes to re-organize and segregate, by way of a demerger of its Demerged Undertaking and vesting of the same in the Resulting Company and subsequently, amalgamation of Transferor Company No. 1 into the Resulting Company and amalgamation of the Transferor Companies into the Transferee Company.

4.2.3. The proposed demerger pursuant to this Scheme is expected, inter alia, to result in following benefits:

- a. segregation and unbundling of the CC & WT Business of the Demerged Company into the Resulting Company, which will enable enhanced focus on Retained Business of the Demerged Company and Resulting Company for exploiting opportunities of each of their businesses;
- b. unlocking of value for the shareholders of the Demerged Company, attracting investors and providing better flexibility in accessing capital, focused strategy and specialisation for sustained growth;
- c. logistics alignment leading to economies of scale for the Resulting Company and creation of sectoral efficiencies and benefitting stakeholders as well as optimization of operation and capital expenditure; and
- d. enhancing competitive strength, achieving cost optimisation, ensuring benefits through focused management of the financial, managerial and technical resources, personnel capabilities, skills, expertise and technologies of the Resulting Company and the Demerged Company thereby significantly contributing to future growth and maximizing shareholders' value.



Chembond Chemicals Limited

- 4.2.4. Upon completion of proposed demerger, Transferor Company No. 1 will become a step-down subsidiary of the Resulting Company. The proposed Amalgamation – I and Amalgamation - II of the subsidiary companies (direct and indirect) into their respective holding company pursuant to this Scheme is expected, inter alia, to result in the following benefits:
- It will lead to greater efficiency in overall combined business including economies of scale, efficiency of operations, cash flow management and unfettered access to cash flow generated by the combined business which can be deployed more efficiently for the purpose of development of businesses of the combined entity and their growth opportunities, eliminate inter corporate dependencies, minimize the administrative compliances and to maximize shareholders value;
 - It will provide for more productive and optimum utilization of various resources by pooling of the managerial, technical and financial resources of the Transferor Company No. 1, Resulting Company, Transferor Companies and the Transferee Company which will fuel the growth of the business and help effectively address the growing competition;
 - It will result in economies of scale, reduction in overheads including administrative, managerial and other expenditure, operational rationalization, organizational efficiency and optimal utilization of resources by elimination of unnecessary duplication of activities and related costs which will in turn promote maximization of stakeholders value;
 - It will result in reduction in the multiplicity of legal and regulatory compliances required at present to be separately carried out by the Transferor Company No. 1, Resulting Company, Transferor Companies and the Transferee Company; and
 - In summary, the proposed restructuring focuses on optimizing the operational structure to enable better focus, specialization, and efficiency across different business segments, ultimately leading to increased shareholder value and sustained growth for the entities involved.
- 4.2.5. The proposed restructuring is in the interest of the shareholders, creditors, employees, and other stakeholders in each of the Companies.

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

5.1. The Committee reviewed the draft Scheme and noted the following:

- 5.1.1. Demerger of the Demerged Undertaking of the Company into the Resulting Company would create simplified structure and would create independent listed companies with distinct set of growth opportunities. The said demerger would result in achieving efficiency in operational processes, implementation of intended strategies specifically designed for each business and in optimizing profitability of each of these entities.



Chembond Chemicals Limited

- 5.1.2. Amalgamation of the Transferor Companies into and with the Transferee Company will create greater synergies and efficient utilization of resources and create a consolidated and diverse portfolio of products under a single entity.
- 5.2. Thus, the re-structuring is proposed to result into enhanced development and growth of the business of the Demerged Company with independent focus on each business segment and more productive utilization of such resources which would be beneficial for all stakeholders. Further, pursuant to the proposed Scheme, the benefits as stated in paragraph 4 above are proposed to be derived.

6. Impact of the Scheme on the shareholders

- 6.1. As regards to demerger, all the equity shareholders of the Company (promoter and non-promoter), as on the Record Date (*as defined in the Scheme*) shall receive equity shares of the Resulting Company in the following ratio:

“for every 1 (One) fully paid-up equity share having face value of Rs. 5 (Rupees Five) each held in the Demerged Company as on the Record Date, the equity shareholders of the Demerged Company shall be issued 2 (Two) fully paid-up equity shares having face value of Rs. 5 (Rupees Five) each, in the Resulting Company”

in consideration for the transfer of the Demerged Undertaking pursuant to Demerger basis a Fair Share Entitlement Ratio recommended by SSPA & Co, Registered Valuers and Vivro Financial Services Private Limited, Category – I Merchant Banker. There will be no change in the economic interest of the shareholders of the Demerged Company, before and after Scheme. After the effectiveness of the Scheme and subject to receipt of regulatory approvals, the equity shares of the Resulting Company issued as consideration pursuant to the Scheme shall be listed on BSE and NSE and thus ensuring the marketability and tradability of the equity shares issued by the Resulting Company.

- 6.2. As regards to Amalgamation – I, the Transferor Company No.1 will become an indirect wholly owned subsidiary of the Resulting Company pursuant to demerger and hence there shall be no issue of shares by the Resulting Company as consideration for the amalgamation of the Transferor Company No. 1. With regards to Amalgamation – II, Transferor Companies 2, 3 & 4 are wholly owned subsidiaries (direct and indirect) of the Transferee Company and there shall be no issue of shares by the Transferee Company as consideration for the amalgamation of the Transferor Companies. Accordingly, Amalgamation – I and Amalgamation – II would be neutral to the Resulting Company, Transferee Company and its public shareholders.
- 6.3. All the shares held by the Transferee Company in the Transferor Companies shall stand cancelled without further act or deed on amalgamation coming into effect. There would neither be any change in the existing number of shares nor in the percentage shareholding of the promoters on an aggregate basis in the Transferee Company pursuant to amalgamation. Also, the Scheme does not provide for any reduction in the public shareholding percentage in the Transferee Company.



Chembond Chemicals Limited

6.4. The proposed Scheme is expected to be beneficial to the Demerged Company/Transferee Company, Resulting Company, Transferor Company No. 1, Transferor Companies and their respective shareholders and all their stake holders and will enable the Demerged Company/Transferee Company and the Resulting Company to achieve and fulfil their objectives more effectively and efficiently.

7. Cost benefit analysis of the Scheme

Although the Scheme would lead to incurring of some cost towards its implementation, however, the benefits of the Scheme over a longer period would far outweigh such costs for the stakeholders of the Demerged Company/Transferee Company and the Resulting Company respectively.

8. Recommendations of the Audit Committee

The Audit Committee after due deliberations and due consideration of all the terms of the draft Scheme, Share Entitlement Ratio Report, Fairness Opinion Report, certificate(s) issued by the Statutory Auditors of the Company and in view of above stated factors including the need and rationale of the Scheme, benefits and impact of the Scheme on the shareholders and in particular the fact that the Scheme is not detrimental to the interests of the shareholders of the Demerged Company/Transferee Company, recommends the draft Scheme to the Board of Directors of the Company for its consideration and approval.

By Order of the Audit Committee
For and on behalf of **Chembond Chemicals Limited**


Mahendra K. Ghelani
Chairman of the Audit Committee

DIN: 01108297

Place: Mumbai

Date: December 12, 2023

