

**REPORT OF THE AUDIT COMMITTEE OF SHANKARA BUILDING PRODUCTS LIMITED ON THE DRAFT SCHEME OF ARRANGEMENT BETWEEN SHANKARA BUILDING PRODUCTS LIMITED AND SHANKARA BUILDPRO LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS**

This Report of the Audit Committee ("**Committee**") is considered and approved by the Committee at its meeting held on December 18, 2023.

The following members of the Committee were present at the meeting:

1. Mr. Bhadrannarasimham Jayaraman, Chairman
2. Mr. Ravichandar Venkataraman, Member
3. Mr. Chandu Nair, Member
4. Ms. Jayashri Murali, Member
5. Mr. Sukumar Srinivas, Member

**A. Background**

1. The draft Scheme of Arrangement to be entered between Shankara Building Products Limited ("**Company**" or "**Demerged Company**") and its wholly owned subsidiary company, Shankara Buildpro Limited ("**Resulting Company**") and their respective shareholders and creditors (hereinafter referred to as "**Scheme**") for the demerger, transfer and vesting of the Trading Business of the Demerged Company comprising of retail, supply, distribution and promotion of various home improvement and building products in India ("**Trading Business**" or "**Demerged Undertaking**") in terms of Sections 230 to 232 of the Companies Act, 2013 ("**Act**") and the applicable rules framed thereunder and Securities and Exchange Board of India ("**SEBI**") (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**SEBI LODR Regulations**") including SEBI Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023 as amended from time to time ("**Master Circular**") and reduction by way of cancellation of the entire pre-scheme share capital of the Resulting Company as an integral part of the Scheme was presented to the Committee at its meeting held on December 18, 2023 for its consideration and making recommendation to the Board of Directors of the Company.



2. In terms of the Master Circular, a report from the Committee recommending the draft Scheme, is required to be adopted and recommended to the Board. Accordingly, this report is prepared to comply with the aforesaid requirements.
3. While deliberating on the Scheme, the Committee, inter-alia, considered and took on record the following documents:
  - i) Draft Scheme, duly initialled by the Company Secretary of the Company for the purpose of identification;
  - ii) Share Entitlement Ratio Report ("**SER Report**") dated 18<sup>th</sup> December, 2023, issued by SSPA & Co., Chartered Accountants (Registration No. IBBI/RV-E/06/2020/126), recommending the share entitlement ratio being issuance or allotment of 1 equity share of the Resulting Company for every 1 equity share of Demerged Company ("**Share Entitlement Ratio**");
  - iii) Fairness Opinion dated 18<sup>th</sup> December, 2023, issued by Fortress Capital Management Services Private Limited, the SEBI registered merchant banker Registration No. INM000011146 providing fairness opinion on the share entitlement ratio recommended in the SER Report;
  - iv) Certificate dated 17<sup>th</sup> December, 2023 obtained from the Statutory Auditors of the Company i.e., M/s Sundaram & Srinivasan, Chartered Accountants, (Firm Registration No.004207S), regarding compliance of the accounting treatment contained in the draft Scheme with the accounting standards specified under Section 133 of the Act;
  - v) Undertaking given by the Company confirming that approval of majority of public shareholders as prescribed under Paragraph (A) (10)(b) of Part I of the Master Circular is not applicable to the Scheme along with certificate of the Statutory Auditors of the Company, certifying the said undertaking.



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4. The Scheme, amongst others, contemplates the following arrangements (Capitalised terms used and not defined herein shall have the meaning ascribed to them in the Scheme):
- i) Demerger of Trading Business of the Demerged Company into Resulting Company and their respective shareholders and creditors, in accordance with Sections 230 to 232 of the Act and other applicable laws.
  - ii) Pursuant to the sanction of the Scheme by the Tribunal and upon the fulfilment of conditions as prescribed in the Scheme, the Scheme shall become effective from date on which the certified copies of the last of the Sanction Orders are filed with the RoC in accordance with **Clause 18** of the Scheme (i.e., "Effective Date") or such other date as may be approved by the Tribunal.
  - iii) With effect from the Appointed Date, and upon the Scheme becoming effective, the Demerged Undertaking of the Demerged Company shall stand transferred to and be vested in the Resulting Company, as a going concern, without any further deed or act, together with the benefits and interest therein, in the manner provided for in the Scheme, in accordance with Sections 230 to 232 of the Act, and other applicable laws.
  - iv) Allotment of Equity Shares of the Resulting Company to the equity shareholders of Demerged Company in accordance with the Share Entitlement Ratio, as set out in the SER Report.
  - v) Reduction by way of cancellation of the entire pre-scheme share capital of the Resulting Company.
5. The effectiveness of the Scheme is conditional upon fulfilment of the 'Conditions Precedent' as specified in the Scheme ("said conditions"), which include:
- a) **Stock Exchange Approval:** The Demerged Company shall have received no-objection letter from the designated stock exchange in respect of the Scheme (prior to filing the Scheme with the Hon'ble NCLT) and the transactions contemplated therein in accordance with the SEBI LODR Regulations and the Master Circular.



- b) **Shareholders' and Creditors' Approval:** The Scheme shall have been approved by the respective majority of the requisite classes of shareholders (through postal ballot/e-voting, as applicable) and creditors (where applicable) of the Companies as required under the Act, Master Circular and as may be directed by the NCLT, subject to any dispensation that may be granted by the NCLT.
- c) **Approval of the Hon'ble NCLT:** The Scheme shall have been approved by the Hon'ble NCLT, either on terms as originally approved by the relevant parties to the Scheme, or subject to such modifications as approved by the Hon'ble NCLT.
- d) **Filing of e-form INC 28:** The Demerged Company and the Resulting Company each duly filing e-form INC 28 on the website of the ministry of corporate affairs.
- e) **Listing of equity shares of the Resulting Company:** The Resulting Company shall upon allotment of shares to the shareholders of the Demerged Company pursuant to the Scheme immediately make an application to SEBI in terms of Rule 19(7) of Securities Contracts (Regulation) Rules, 1957 for listing of equity shares of the Resulting Company at all the stock exchanges where the equity shares of Demerged Company are listed i.e., National Stock Exchange and Bombay Stock Exchange.

**B. Need for the Scheme and Synergies of business of the companies involved in the Scheme**

- i) **Focus on individual businesses:** With the help of the demerger, the Demerged Company and the Resulting Company could concentrate its resources, management attention, and investments on its individual operations, potentially leading to improved performance and competitiveness.
- Demerged Company individually may manage the Manufacturing Business more efficiently; demerger to enable optimal exploitation, monetization and development of its assets.
- ii) **Improve financial performance:** Demerger is likely to improve the financial performance of the companies. Both the companies can optimize its capital structure, streamline costs, and have clearer financial reporting, potentially leading to enhanced financial results.



- iii) **Better capital allocation:** Both the companies can optimize its capital structure and accordingly allocate the capital that suits its business and investment requirements and growth plans.
- Financial resources will be conveniently raised in accordance with the requirement of the business.
- iv) **Enhanced strategic flexibility:** Management of both companies to pursue independent growth & expansion strategies for both the businesses.
- Resulting Company will have the flexibility to pursue its individual growth strategies, partnerships, mergers, acquisitions, and investments, tailored to its specific business objectives without any constraints if any, as may be contemplated in future.
- v) **Alignment with industry trends & customized growth:** Both the companies may adapt and align more effectively with the trends and requirements of their respective industries, leading to better competitiveness and sustainability from long-term perspective.
- vi) **Simplification of organizational structure:** Complex organizational structures & legacy issues may impede the decision-making, agility, and efficiency. Demerger aims to simplify the structure, making each entity more manageable and enabling faster decision-making and targeted strategies.
- vii) **Better corporate governance:** Demerger is expected to improve corporate governance within the separated entities, ensuring that the board and management are aligned with the specific interests and goals of their businesses.
- viii) **Unlocking shareholders value:** Ability to achieve valuation based on respective risk-return profile & cash flows thus, creating the overall value for the shareholders.
- Creating different companies will allow investors to better understand and evaluate each business's potential, thus, potentially resulting in higher valuations for the individual companies.
  - Resulting Company to have better visibility and valuation in the market as a standalone business.



**C. Rationale of the Scheme**

- i) Demerger shall enable both Demerged Company and the Resulting Company to enhance business operations by streamlining operations, more efficient management control and outlining independent growth strategies such as expansion of product categories and geographical presence.
- ii) Creation of dedicated vertical for the growth of Trading Business with focused attention.
- iii) Attracting new set of investors with specific knowledge, expertise and risk appetite corresponding to their own businesses, thus, both the Demerged Company and the Resulting Company will have its own set of likeminded investors, thereby providing the necessary funding impetus to the long-term growth strategies of Trading Business and Manufacturing Business.
- iv) Pursuant to the scheme of arrangement, equity shares issued by the Resulting Company would be listed on the stock exchanges and thus, will unlock the value of the Trading Business for the shareholders of the Demerged Company.
  - Existing shareholders of the Demerged Company would hold the shares of two (2) listed companies once the scheme becomes effective, giving them flexibility in managing their investments in two (2) businesses having differential dynamics.
- v) Demerger to be in the interest of shareholders, creditors and there is no likelihood that any shareholder or creditor would be prejudiced as a result of scheme of arrangement. It will not impose any additional burden on the shareholders of the Demerged Company considering the scheme would merely involve transfer and vesting of Trading Business by way of an arrangement from the Demerged Company to Resulting Company.

**D. Impact of Scheme on shareholders of the Company**

- i) Segregation of Trading Business & Manufacturing Business of the Demerged Company through demerger will help in unlocking shareholder value which may be undervalued when part of a larger consolidation.



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- ii) Pursuant to demerger, the Resulting Company will issue its equity shares to the shareholders of the Demerged Company based on the SER Report and in the same proportion in which the shareholders held equity shares in the Demerged Company. Thus, the overall economic interest of the shareholders of the Demerged Company should remain same in both the companies.
- iii) Given the above, considering there is no proposed change in the shareholding pattern of the Demerged Company, the proposed demerger should be in the best interest of shareholders.
- iv) Post effectiveness of the demerger and subject to receipt of regulatory approvals, the equity shares of the Resulting Company issued as consideration pursuant to demerger should be listed on the recognized stock exchanges and thus, ensuring the marketability and tradability of equity shares of the Resulting Company.

#### **E. Cost benefit analysis of the Scheme**

The Committee is of the view that while the demerger would involve certain cost such as stamp duty, regulatory fees, consultancy fees and other transactional and implementation cost, the expected benefits as stated under Paragraph B, would offset the impact of the aforementioned costs.

#### **F. Recommendation of the Committee**

Taking into consideration inter alia the draft Scheme, SER Report, Fairness Opinion, certificate issued by the Statutory Auditors and the specific points as mentioned above, the Committee, after due deliberation and consideration, recommends the draft Scheme for favourable consideration and approval by the Board of Directors of the Company, Stock Exchanges, SEBI and other appropriate authorities.

On behalf of the Audit Committee of

**SHANKARA BUILDING PRODUCTS LIMITED**



**BHADRANARASIMHAM JAYARAMAN**  
**CHAIRPERSON, AUDIT COMMITTEE**  
**(DIN: 00022567)**



**Date: December 18, 2023**  
**Place: Bengaluru**