

REPORT OF THE AUDIT COMMITTEE OF MAHINDRA AND MAHINDRA LIMITED ("COMPANY") RECOMMENDING THE DRAFT SCHEME OF MERGER BY ABSORPTION OF MAHINDRA ELECTRIC MOBILITY LIMITED WITH THE COMPANY AND THEIR RESPECTIVE SHAREHOLDERS

Members Present:

- Mr. T.N. Manoharan - Chairman
- Mrs. Shikha Sharma
- Mr. Vikram Singh Mehta
- Mr. Haigreve Khaitan

1. Background:

- 1.1 A meeting of the Audit Committee of the Company was held on 28th May, 2021 to inter-alia, consider and recommend the draft Scheme of Merger by Absorption of Mahindra Electric Mobility Limited ("MEML" or "Transferor Company") with Mahindra and Mahindra Limited ("M&M" or "Transferee Company" or "Company") and their respective shareholders ('the Scheme') under Section 230 to 232 and other applicable provisions of the Companies Act, 2013 ('the Act').
- 1.2 The Scheme provides for merger of MEML with the Company in consideration of issue of fully paid-up equity shares by the Company to the shareholders of MEML (except M&M or its subsidiaries holding shares directly and jointly with its nominee shareholders); the consequent dissolution of MEML without winding up and various other matters consequential or integrally connected therewith with an appointed date of 1st April, 2021 or such other date as may be directed or approved by the National Company Law Tribunal, Mumbai Bench ('NCLT') or any other appropriate authority.
- 1.3 The Scheme which shall be presented before the jurisdictional bench of NCLT under Section 230 to 232 and other applicable provisions of the Act, has been drawn up to be in compliance with Section 2(1B) and other applicable provisions



of Income-tax Act, 1961 and other applicable laws including SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 ('SEBI Listing Regulations') read with SEBI Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2020/249 dated 22nd December, 2020 ('SEBI Circular').

- 1.4 In terms of SEBI Circular read with SEBI Listing Regulations, a report from Audit Committee is required recommending the draft Scheme, taking into consideration inter alia the Valuation Report, and commenting on the need for the Scheme, rationale of the Scheme, impact of the Scheme on the Company and its shareholders, cost benefit analysis of the Scheme and synergies of business of the entities involved in the Scheme. This report of Audit Committee is made in order to comply with the requirements of the SEBI Circular and the SEBI Listing Regulations.

2. Documents perused by the Audit Committee

- 2.1 The following documents were placed before the Audit Committee -

- a) **The Scheme;**
- b) **Valuation Report** dated 28th May, 2021 issued by an independent Registered Valuer, M/s. **BDO Valuation Advisory LLP** having registration number IBBI/RV-E/02/2019/103 ("Valuation Report" or "**Share Exchange Report**"), providing the share exchange ratio as under -

"480 ordinary (equity) shares of face value of INR 5/- each of Transferee Company shall be issued and allotted as fully paid up for every 10,000 equity shares of the face value of INR 10/- each fully paid up held in Transferor Company"



- c) **Fairness opinion** dated 28th May, 2021 issued by M/s. SBI Capital Markets Limited, an independent SEBI Registered (Category I) Merchant Banker (Firm Registration No. INM000003531), providing its **opinion on the fairness of the share exchange ratio** in the Valuation Report by Registered Valuer ("Fairness Opinion");
- d) **Valuation Report** dated 28th May, 2021, issued by an independent Registered Valuer, M/s. BDO Valuation Advisory LLP having registration number IBBI/RV-E/02/2019/103 ("ESOP Exchange Report") providing the following **exchange ratio for MEML ESOPs**;

Sr. No	Exercise Price for MEML ESOPs (INR)	Ratio of M&M ESOPs per 10,000 MEML ESOPs
1.	24.90	168
2.	25.17	165
3.	25.91	156

- e) **Fairness opinion** dated 28th May, 2021, issued by M/s. SBI Capital Markets Limited, an independent SEBI Registered (Category I) Merchant Banker (Firm Registration No. INM000003531), providing its **opinion on the fairness of the ESOP exchange ratio** ("ESOP Fairness Opinion");
- f) Certificate of M/s. BSR & Co. LLP, Chartered Accountants, Statutory Auditors of the Company, confirming the **minimum price at which shares should be allotted to the shareholders of MEML** in terms of pricing provisions of Chapter V of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, read with the SEBI Circular;

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- g) Certificate of M/s. BSR & Co. LLP, Chartered Accountants, statutory auditors of the Company, confirming that the **accounting treatment outlined in the Scheme is in compliance with the applicable Indian Accounting Standards** prescribed under section 133 of the Act read with the rules framed thereunder and other generally accepted accounting principles;
- h) Undertaking with regard to **non-applicability of requirements i.e. approval only by public shareholders**, prescribed in Part I(A)(10)(b) of the SEBI Circular, and Certificate of M/s. BSR & Co. LLP, Chartered Accountants, statutory auditors of the Company certifying the said undertaking;
- i) Report of the Committee of Independent Directors recommending the draft Scheme, taking into consideration, inter-alia, that the Scheme is not detrimental to the shareholders of the Company.

3. Rationale of the Proposed Scheme:

The Audit Committee noted the rationale of the Scheme, which inter-alia is as follows:

- Global automobile industry is accelerating the adoption of Electric Vehicles ("EV") and its share to total Automobile market is expected to increase rapidly. The Indian Government has also been encouraging this migration with various timeline linked incentives. Future readiness will require increased investment, reconfiguration of value chain, faster launch of new EV products and remapping of managerial skill sets.
- MEML has expertise in EV technology while M&M has expertise in automotive design, engineering and manufacturing, sourcing network and sales, marketing & service channels. Thus, the value chain required for end to end



EV development, manufacturing and sales is currently spread between M&M and MEML. The proposed consolidation will bring this entire value chain under one umbrella driving sharper focus for smooth and efficient management of the value chain requirements with scale and agility required to meet the increasing focus on EVs.

- M&M also envisages significant investments in the EV business to scale up the business and develop a robust EV product pipeline for which the proposed consolidation will be critical. Further, M&M's better credit rating will also provide significant savings in finance costs for funding the investment.
- The consolidation of MEML with M&M will also result in:
 - Optimizing capital investments for manufacturing EVs by leveraging manufacturing and R&D infrastructure of M&M and hence lower EV costs.
 - Leveraging M&M Sales & Marketing channel to increase EV penetration, optimize price points for customers and improve dealer viability.
 - Rationalization of number of identified operating entities thereby reducing the legal and regulatory compliances.
- The proposed Scheme will be beneficial, advantageous and not prejudicial to the interests of the shareholders, creditors and other stakeholders of MEML and M&M.

4. Salient Features of the Proposed Scheme:

The Audit Committee noted the salient features of the Scheme, which inter-alia are as under:

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- 4.1 Appointed Date: 1st April, 2021 or such other date as may be directed or approved by the NCLT or any other appropriate authority.
- 4.2 The Scheme duly approved by the Stock Exchanges, SEBI, NCLT, with or without modifications, shall be effective from the Appointed Date but shall be operative from the Effective Date (date on which the NCLT order is filed with the Registrar of Companies).
- 4.3 Upon the coming into effect of the Scheme and with effect from the Appointed Date, the Undertaking as defined in the Scheme (including all the estate, assets, liabilities, contingent liabilities, duties, obligations of every kind, rights, claims, title, interest and authorities including accretions and appurtenances, licences, permissions, incentives, registrations, exemptions, grants, subsidies, concessions, tax entitlements (including but not limited to incentives and/or credits under applicable indirect tax laws), debtors, receivables, branches, contracts, encumbrances, employees, proceedings, etc.) and entire business of MEML in India or abroad shall stand vested in or be deemed to have been vested in the Company, as a going concern without any further act, instrument, deed, matter or thing so as to become, as and from the Appointed Date, the undertaking of the Company by virtue of and in the manner provided in the Scheme.
- 4.4 All inter-company balances and agreements, if any, between the Company and MEML will stand cancelled as a result of merger.
- 4.5 The Scheme provides for combining the Authorized Share Capital of MEML with the Company.
- 4.6 Since MEML is a subsidiary of the Company, upon the Scheme becoming effective, the Company shall immediately following such transfer and vesting of the

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Undertaking of MEML into the Company without any application of deed, issue and allot Equity shares, credited as fully paid up, to the extent indicated below, to the equity shareholders of MEML (except M&M or its subsidiaries holding shares directly and jointly with its nominee shareholders) whose names appear in the register of members of MEML, on the Record Date or to such of their respective heirs, executors, administrators or other legal representatives or other successors in title as may be recognized by the Board of Directors of MEML in the following manner viz.:

"480 ordinary (equity) shares of face value of INR 5/- each of Transferee Company shall be issued and allotted as fully paid up for every 10,000 equity shares of the face value of INR 10/- each fully paid up held in Transferor Company"

Fractional entitlements to be rounded off to the next higher whole number.

The above share exchange ratio is based on the Valuation Report dated 28th May, 2021 issued by an independent Registered Valuer, M/s. BDO Valuation Advisory LLP.

- 4.7 The stock options held by the ESOP Holders who are employees of MEML or employees of the Company or its subsidiaries as on the Record Date shall be substituted with Employee Stock Options (ESOPs) of the Company in accordance with Clause 11 of the Scheme.
- 4.8 The Scheme shall be effective, subject to approvals from Stock exchanges, SEBI, Regional Director, Registrar of Companies, Official Liquidator and NCLT.



- 4.9 The Scheme may be subject to requisite approvals from the shareholders and creditors of the Company and MEML as may be directed by NCLT, unless the same is dispensed by NCLT.
- 4.10 In the event, any of the sanctions and approvals referred to in the Scheme is not being obtained, the Scheme shall stand cancelled and be of no effect.
- 4.11 The Scheme is in compliance with the conditions relating to "Amalgamation" as specified under Section 2(1B) of the Income-tax Act, 1961.
- 4.12 Dissolution of the Transferor Company without winding up.
- 4.13 The costs, charges, expenses, taxes including duties, levies in connection with the Scheme would be borne by the Company.
- 4.14 Equity Shares issued by the Company to the shareholders of MEML pursuant to the Scheme would be listed on BSE Limited and National Stock Exchange of India Limited.

5. Impact of the Scheme on the Company and its shareholders:

The Audit Committee discussed the rationale and expected benefits of the Scheme. In view of the various documents presented before the Audit Committee including Valuation Report, Fairness Opinion etc., it is observed that this merger will result in optimisation of capital investments for manufacturing Electric Vehicles (EVs) by leveraging existing infrastructure spread across M&M and MEML and hence lower EV costs.

The merger will help to leverage Sales & Marketing channel of M&M to increase EV penetration, optimize price points for customers and improve dealer viability. It will bring the entire vehicle value chain required for a robust EV business



together in one company thereby increasing efficiency and providing greater agility in serving customer requirements.

Further, the Company's better credit rating will also provide significant savings in finance costs for funding the significant investments required for scaling up the EV business.

Consideration shall be discharged by M&M by issuing its equity shares to the shareholders of MEML (except M&M or its subsidiaries holding shares directly and jointly with its nominee shareholders) based on Valuation Report dated 28th May, 2021 issued by Registered Valuer, M/s. BDO Valuation Advisory LLP.

Based on the above, the Audit Committee is of the view that the Scheme is in the best interests of all the shareholders of the Company.

6. Need for the Scheme of Arrangement:

Need for the Scheme is mentioned in the Rationale of the Scheme at clause 3 above.

7. Cost benefit analysis of the Scheme:

The consideration proposed to be discharged by the Transferee Company represents fair value of the business of Transferor Company as substantiated by Valuation Report and Fairness Opinion obtained by the Company in relation to the valuation of the Transferor Company.

Apart from this, certain administrative cost including regulatory fee etc. will be incurred to complete the Scheme. As against the cost incurred, proposed consolidation will, inter alia, bring the entire vehicle value chain required for a robust EV business under the Transferee Company thereby increasing efficiency and providing greater agility, required to meet the increasing focus on EVs.



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

The value chain required for EV design & development, manufacturing and marketing & sales is currently spread between M&M and MEML. Proposed consolidation will bring the entire EV development, manufacturing and sales & service operations under one umbrella driving sharper focus for smooth and efficient management of end-to-end value chain requirements with scale and agility required to meet the increasing focus on EVs.

Accordingly, the consolidation of MEML with M&M will result in the following synergies:

- Efficient to drive decisions regarding investments for scaling up business and developing a robust product pipeline;
- Streamlining and enhancing development work by combining MEML's R&D abilities with M&M's larger Research & Development hub at Chennai - Mahindra Research Valley;
- Optimise capital investments for manufacturing EVs by leveraging manufacturing infrastructure of M&M and hence lower EV costs
- Leveraging M&M Sales & Marketing channel to increase EV penetration, optimize price points for customers and improve dealer viability
- Optimize costs of financing the investments required for scaling up the EV business
- Bringing the entire vehicle value chain required for a robust EV business together in one company thereby increasing efficiency and providing greater agility in serving customer requirements.




9. Recommendation of the Audit Committee

Taking into consideration the recommendation of the Committee of Independent Directors, the Scheme and its rationale and benefits, Valuation Report, Fairness Opinion, impact of the Scheme on the Company and its shareholders, cost benefit analysis of the Scheme, synergies of business and other documents, as placed, the Audit Committee recommends the Scheme for approval of the Board of Directors of the Company, the Stock Exchanges, SEBI and other appropriate authorities.

By order of Audit Committee

For and on behalf of MAHINDRA AND MAHINDRA LIMITED



T. N. Manoharan

Chairman of Audit Committee

Date: 28th May, 2021

Place: Chennai