



**REPORT ADOPTED BY THE AUDIT COMMITTEE OF TATA MOTORS LIMITED (“COMPANY”) RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN THE COMPANY AND ITS SHAREHOLDERS AND CREDITORS, AT ITS MEETING HELD ON JULY 24, 2023**

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**1. Background**

- 1.1.** The Company is a public limited company incorporated under the laws of India bearing corporate identification number L28920MH1945PLC004520 and having its Registered Office at Bombay House, 24 Homi Mody Street, Mumbai- 400001. The Ordinary Shares (*as defined in the Scheme*), ‘A’ Ordinary Shares (*as defined in the Scheme*) and the Non-Convertible Debentures of the Company are listed on the National Stock Exchange of India Limited (“NSE”) and BSE Limited (“BSE” and collectively with the NSE, the “Stock Exchanges”).
- 1.2.** A meeting of the Audit Committee of the Company was held on July 24, 2023, *inter alia*, to consider and recommend to the Board of Directors, the reorganisation of the share capital of the Company by way of reduction through cancellation of the ‘A’ Ordinary Shares of the Company and the consequent issuance and allotment of the Ordinary Shares as consideration other than cash through a scheme of arrangement to be entered into between the Company and its shareholders and creditors pursuant to the provisions of Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 including any statutory modification(s) or re-enactment(s) thereof for the time being in force and the rules framed thereunder (“Act” and such scheme, the “Scheme”).
- 1.3.** In terms of the Circular bearing no. SEBI/HO/CFD/POD-2/P/CIR/2023/93 ‘*Master Circular on (i) Scheme of Arrangement by Listed Entities and (ii) Relaxation under Sub-rule (7) of rule 19 of the Securities Contracts (Regulation) Rules, 1957*’ dated June 20, 2023, and Circular bearing no. SEBI/HO/DDHS/PoD1/P/CIR/2023/108 ‘*Master Circular for listing obligations and disclosure requirements for non-convertible Securities, Securitized Debt Instruments and/ or Commercial Paper*’ dated July 29, 2022, or any other circulars issued by the Securities and Exchange Board of India (“SEBI”) prescribing the compliance requirements for schemes of arrangement involving listed companies in each case, as amended from time to time, (collectively, the “SEBI Scheme Circulars”), a report from the Audit Committee recommending the draft Scheme is required, taking into consideration, *inter alia*, (a) the Valuation Report (*as defined hereinafter*), and (b) commenting on the need for the Scheme, rationale of the Scheme, synergies of business of the entities involved in the Scheme, impact of the Scheme on the shareholders and cost benefit analysis of the Scheme.
- 1.4.** This report of the Audit Committee is made in compliance with the requirements of the SEBI Scheme Circulars issued by the SEBI pursuant to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”).



## 2. Salient features of the Scheme

### 2.1. The salient features of the proposed Scheme are as under:

- (a) reduction through cancellation of the 'A' Ordinary Shares and the consequent issuance and allotment of the Ordinary Shares (*the Ordinary Shares issued by the Company as the consideration pursuant to the Scheme is hereinafter referred to as 'New Ordinary Shares' for ease of reference, as more particularly defined below*), as consideration other than cash for such reduction;
- (b) creation of a Trust which will receive the New Ordinary Shares from the Company on behalf and for the benefit of each of the Relevant Shareholders as contemplated under the Scheme and the mechanism to discharge obligations and completion in terms of the Scheme;
- (c) various other matters incidental to, consequential to and/ or otherwise connected with the above, under Section 230 - 232 and other applicable provisions of the Act, and the SEBI Scheme Circulars.

2.2. The consideration for reduction of the 'A' Ordinary Shares under the Scheme, is payable by way of consideration other than cash. Upon effectiveness of the Scheme and in accordance with the provisions of Scheme, the Company shall issue New Ordinary Shares to the holders of the 'A' Ordinary Shares as consideration for the reduction and cancellation of the 'A' Ordinary Shares. The issuance of consideration in the form of New Ordinary Shares rather than cash will have various benefits, including: (a) preserving liquidity for the Company's growth; (b) allowing the holders of the 'A' Ordinary Shares to continue to participate in the Company's performance; and (c) the other benefits as generally set out in this report.

2.3. For the purposes of, *inter alia*, transfer of the Capital Reduction Consideration (*as defined below*) by the Company to the Relevant Shareholders (*as defined below*), the Company shall, prior to the Effective Date have settled the Trust (*as defined in the Scheme*). The Trust will receive the New Ordinary Shares from the Company on behalf and for the benefit of each of the Relevant Shareholders as contemplated under paragraph 2.5 below, and will thereafter, post-sale of the requisite number of New Ordinary Shares to discharge obligations in relation to Total Adjustment Amounts (*as defined below*) and completion of the other actions more specifically enumerated in the Scheme, *inter alia*, distribute the remaining New Ordinary Shares to the Relevant Shareholders in terms of the Scheme.

2.4. In this regard, following the effectiveness of the Scheme, the Company shall, issue New Ordinary Shares on behalf and for the benefit of each holder of the 'A' Ordinary Shares whose shares have been cancelled in accordance with the Scheme and whose names appear in the register of members (including register and index of beneficial owners maintained by a depository under Section 11 of the Depositories Act, 1996) of the Company on the Record Date or to such of their respective heirs, executors, administrators or other legal representative or other successors in





title as on the Record Date (“**Relevant Shareholders**”), after: (a) receipt of any documents required from the holders of ‘A’ Ordinary Shares pursuant to the Scheme; and (b) the actions required from the Trust pursuant to the Scheme.

- 2.5. The consideration specified under the Scheme, for every 10 cancelled and extinguished fully paid-up ‘A’ Ordinary Shares of face value of INR 2 (Indian Rupees Two only) each shall be:

*“7 fully paid-up Ordinary Share(s) of face value of INR 2 (Indian Rupees Two only) each.”*  
 (“**Capital Reduction Consideration**”)

Immediately post issuance and allotment, the Company shall take necessary steps for obtaining the listing and trading approvals for the issued shares in accordance with the Scheme.

- 2.6. The Ordinary Shares issued by the Company as the consideration pursuant to the Scheme are referred to as the “**New Ordinary Shares**”. The New Ordinary Shares shall be issued/ transferred to the Relevant Shareholders pursuant to the Scheme in the manner set out below:

(a) Upon effectiveness of the Scheme, the Company shall issue and allot the New Ordinary Shares to the Trust, which shall hold the New Ordinary Shares on behalf and for the benefit of each Relevant Shareholder.

(b) The Company shall notify the Trust of:

(i) the details of the demat account, bank account and other details of each Relevant Shareholder, as available in the records of the Company;

(ii) the number of New Ordinary Shares issued in respect of each Relevant Shareholder;

(iii) the amount to be withheld from the consideration attributable to each Relevant Shareholder under Applicable Law (including Tax Laws) (“**Adjustment Amount**”).

- 2.7. the Trust shall, upon allotment of the New Ordinary Shares, sell such number of New Ordinary Shares on the Stock Exchanges, as may be required to: (i) realise the aggregate Adjustment Amount notified by the Company pursuant to paragraph 2.6(b) above; and (ii) discharge costs attributable to capital gains tax, securities transaction tax, transaction cost(s), brokerage charges, and any other expenses akin to the foregoing payable solely with respect to the sale of New Ordinary Shares pursuant this paragraph (collectively with sub-paragraph (i) of this paragraph 2.7(c), the “**Total Adjustment Amount**”). For the avoidance of doubt, costs attributable to the fees payable to advisors (including legal, tax, merchant banker and accounting), the fees payable to the trustee of the Trust and any other expenses akin to the foregoing costs, pursuant to the Scheme shall be borne by the Company, *inter alia*, through the Trust’s corpus and/ or through the Trust invoicing the Company. The Trust shall determine the



number of New Ordinary Shares to be sold, the timing of the sale and the Stock Exchange on which such sale should be undertaken based on the advice of a merchant banker appointed by the Trust in this regard, provided however that such sale shall be concluded before the end of the calendar month as in which the Record Date falls, unless otherwise decided by the Board (including any Committee thereof) in accordance with the Applicable Law;

**2.8.** promptly following completion of such sale, the Trust shall:

- (a) immediately thereafter, remit the aggregate Adjustment Amount to the Company;
- (b) within 7 (seven) days from the date of such sale, transfer the New Ordinary Shares to the demat account of each Relevant Shareholder based on the Capital Reduction Consideration, less any New Ordinary Shares sold by the Trust to realise the Total Adjustment Amount in respect of such Relevant Shareholder;
- (c) within 7 (seven) days from the date of such sale, remit excess cash (if any) realized by the Trust in respect of the New Ordinary Shares sold by way of distribution, *pro rata*, to the Relevant Shareholders; and
- (d) undertake such additional action as may be required under Applicable Law.

**2.9.** the Company shall deposit the aggregate Adjustment Amount with the relevant governmental authority in the manner prescribed under Applicable Law (including Tax Laws) and shall provide each Relevant Shareholder such documents as are required to be provided by the Company under Applicable Law to evidence such payment.

**2.10.** The Appointed Date for the proposed Scheme is the same date as the Effective Date. The Effective Date for the proposed Scheme means the date on which the certified copy of the order of the NCLT sanctioning the Scheme is filed with the Registrar of Companies by the Company.

**2.11 Impact of the Scheme on the shareholders of the Company:**

The reorganization of share capital envisaged by the Scheme is expected to: (i) simplify and consolidate the Company's capital structure and preserve liquidity for the Company's growth; (ii) be value accretive and beneficial for all shareholders of the Company, and allow the holders of the 'A' Ordinary Shares and Ordinary Shares to continue to participate in the Company's performance.

**2.12 Need for the arrangement:**

The Company issued the 'A' Ordinary Shares in 2008 as part of a rights issue with the objective of, *inter alia*, funding certain overseas investments. The 'A' Ordinary Shares were issued at a discount to the Ordinary Shares. This was the first issuance of 'A' Ordinary Shares by the Company and as on the date of issuance of the 'A' Ordinary Shares, there were limited instances





of issuances of equity shares with differential rights as to voting and dividend by Indian listed companies of the Company's market capitalization and size. Subsequent regulatory changes restricted the issuance of shares with differential voting rights, resulting in a narrow market for similar instruments. The discount in the price at which the 'A' Ordinary Shares trade *vis-à-vis* the Ordinary Shares has increased since the date of listing of the 'A' Ordinary Shares. This has the effect of understating the Company's market capitalization, contributes to a complex capital structure and increases administrative complexity *vis-à-vis* maintaining 2 (two) separate classes of shares. Accordingly, the Company proposes to reorganise its share capital by reducing the 'A' Ordinary Shares of the Company and paying consideration in the form of Ordinary Shares for such reduction.

### **2.13 Cost benefit analysis of the Scheme:**

Although the Scheme would lead to the Company incurring costs towards its implementation, the benefits of the Scheme over a longer period of time will outweigh such costs for the stakeholders of the Company.

### **2.14 Synergies of business of the entities involved in the Scheme:**

Not applicable. The Scheme relates to only one entity, i.e., the Company.

## **3 Rationale of the Scheme**

- 3.1.** The Company issued the 'A' Ordinary Shares in 2008 as part of a rights issue with the objective of, *inter alia*, funding certain overseas investments. The 'A' Ordinary Shares were issued at a discount to the Ordinary Shares.
- 3.2.** The rights attached to the 'A' Ordinary Shares are similar to the rights attached to the Ordinary Shares in all respects except as to voting and dividend, as detailed in the Scheme.
- 3.3.** This was the first issuance of 'A' Ordinary Shares by the Company and as on the date of issuance of the 'A' Ordinary Shares, there were limited instances of issuances of equity shares with differential rights as to voting and dividend by Indian listed companies of the Company's market capitalization and size.
- 3.4.** Subsequent regulatory changes restricted the issuance of shares with differential voting rights, resulting in a narrow market for similar instruments. The discount in the price at which the 'A' Ordinary Shares trade *vis-à-vis* the Ordinary Shares has increased since the date of listing of the 'A' Ordinary Shares. This has the effect of understating the Company's market capitalization, contributes to a complex capital structure and increases administrative complexity *vis-à-vis* maintaining 2 (two) separate classes of shares.



- 3.5. In light of this background, the Company seeks to reorganise its share capital in accordance with Section 230 - 232 of the Act by cancelling and extinguishing 'A' Ordinary Shares and paying consideration to the holders of the 'A' Ordinary Shares in the form of New Ordinary Shares. The reorganization of share capital envisaged by the Scheme is expected to:
- (a) simplify and consolidate the Company's capital structure and preserve liquidity for the Company's growth; and
  - (b) be value accretive and beneficial for all shareholders of the Company, and allow the holders of the 'A' Ordinary Shares and Ordinary Shares to continue to participate in the Company's performance.
- 3.6. The networth of the Company as on June 30, 2023 is INR 21,167 crore. The reduction of the 'A' Ordinary Shares contemplated by the Scheme will not affect the ability or liquidity of the Company to meet any of its financial obligations/ commitments. The Scheme will not have any adverse impact on the creditors as further elaborated in the Scheme.
- 3.7. The Scheme will be in the best interest of the concerned stakeholders of the Company, including the holders of Ordinary Shares and the holders of 'A' Ordinary Shares.

#### 4. Documents placed before the Audit Committee

- (a) Draft Scheme;
- (b) **Independent Valuation Report** dated July 24, 2023 ("**Valuation Report**") issued by PwC Business Consulting Services LLP, (IBBI Registered Valuer Number IBBI/RV-E/02/2022/158) describing, *inter alia*, the workings, relative fair value per share, fair share exchange ratio/entitlement and methodologies adopted by them in arriving at the recommended Capital Reduction Consideration for reduction of the 'A' Ordinary Shares of the Company in connection with the proposed Scheme and setting out the computation of the Capital Reduction Consideration;
- (c) **Fairness opinion** dated July 24, 2023 ("**Fairness Opinion 1**") issued by Axis Capital Limited, a SEBI registered Category I Merchant Banker, (SEBI Registration No. MB/INM000012029), providing their opinion on the fairness of the Capital Reduction Consideration for reduction of the 'A' Ordinary Shares of the Company in connection with the proposed Scheme, as recommended in the Valuation Report, from a financial point of view, for the Ordinary Shareholders of the Company;
- (d) **Fairness opinion** dated July 24, 2023 ("**Fairness Opinion 2**") issued by Citigroup Global Markets India Private Limited, a SEBI registered Category I Merchant Banker, (SEBI Registration No. INM000010718), providing their opinion on the fairness of the Capital Reduction Consideration for reduction of the 'A' Ordinary Shares of the Company in





connection with the proposed Scheme, as recommended in the Valuation Report, from a financial point of view, for the 'A' Ordinary Shareholders of the Company;

- (e) **Auditors' Certificate** issued by B S R & Co. LLP, Chartered Accountants (Registration No. 101248W/W-100022), the statutory auditors of the Company, as required under Section 232(3) of the Companies Act and the SEBI Scheme Circulars certifying, *inter alia*, the repayment capability of the Company and that the accounting treatment contained in the draft Scheme is in conformity with the accounting standards prescribed under Section 133 of the Companies Act and that ;
- (f) **Pricing certificate ("Pricing Certificate")** of the document to be issued by B S R & Co. LLP, Chartered Accountants (Firm Registration No. 101248W/W-100022), statutory auditors of the Company certifying that the minimum price of the Ordinary Shares proposed to be issued pursuant to the Scheme is in compliance with the provisions pertaining to pricing as contained in Chapter V of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2015, the signed and executed copy of which is proposed to be placed before the Board for their consideration, during the meeting on July 25, 2023; and
- (g) other presentations, reports, documents and information made to/ furnished before the Audit Committee pertaining to the draft Scheme,

## 5. Recommendation of the Audit Committee

- 5.1. The Audit Committee has reviewed the Valuation Report and noted the recommendations made therein. Further, the Fairness Opinion 1 and Fairness Opinion 2 have confirmed that the recommended Capital Reduction Consideration for the reduction of the 'A' Ordinary Shares of the Company in connection with the proposed Scheme, by the valuer in the Valuation Report is fair to the holders of the Ordinary Shares and 'A' Ordinary Shares of the Company, respectively.
- 5.2. Taking into consideration the draft Scheme, Valuation Report, Fairness Opinion 1, Fairness Opinion 2, need for the Scheme, rationale of the scheme, synergies of business of the entities involved in the scheme, impact of the Scheme on the shareholders, cost benefit analysis of the Scheme, and other relevant documents, in each case as applicable and as placed, the Audit Committee recommends the draft Scheme for favourable consideration and approval by the Board of Directors of the Company, Stock Exchanges, SEBI and other appropriate authorities.

Vedika Bhandarkar  
Chairperson  
Audit Committee  
DIN: 00033808

Date: July 24, 2023

Place: MUMBAI