

**REPORT OF THE AUDIT COMMITTEE OF LAKSHMI MACHINE WORKS LIMITED
RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN LAKSHMI
MACHINE WORKS LIMITED AND LMW AEROSPACE INDUSTRIES LIMITED AND
THEIR RESPECTIVE SHAREHOLDERS**

Present – Members

- a) Dr. Mukund Govind Rajan: Chairman of the Audit Committee
- b) Sri. Aditya Himatsingka: Member
- c) Justice. Smt. Chitra Venkataraman (Retd.): Member

Present - In attendance

- a) Sri. C R Shivkumaran, Company Secretary

Present - By Invitation

- a) Sri. K Soundhar Rajhan, Director - Operations
- b) Sri. V Senthil, Chief Financial Officer

1. Background

- 1.1 The proposal to approve a Scheme of Arrangement between Lakshmi Machine Works Limited ('LMW') and LMW Aerospace Industries Limited ('LMWASIL') and their respective shareholders ('Scheme') was placed before the Audit Committee at their meeting held on 24th May, 2021 for considering and providing its recommendation on the draft Scheme.
- 1.2 The said proposal involves transfer of Advanced Technology Centre ('ATC') business undertaking of LMW to LMWASIL as a going concern with effect from the Appointed Date or such other date as may be approved by the National Company Law Tribunal ('Tribunal') or any other competent authority, in accordance with the terms of the Scheme.
- 1.3 The Scheme is to be implemented in accordance with Sections 230 to 232 of the Companies Act, 2013 and other applicable provisions, if any, of the Companies Act, 2013, as may be applicable.
- 1.4 The equity shares of the Company are listed on the BSE Limited ('BSE') and the National Stock Exchange of India Limited ('NSE'). The Company will be filing the Scheme along with necessary information / documents with both the mentioned stock exchanges.
- 1.5 The report of Audit Committee is made to comply with the requirements of Section 177 of the Companies Act, 2013 and SEBI Master Circular No.

CFD/DIL3/CIR/2017/21 dated March 10, 2017, as amended from time to time read with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 after considering the following:

- (a) Draft Scheme, duly initialed by Chairman of the Audit Committee for identification;
- (b) Valuation Report by Mr. Pawan Shivkumar Poddar, Registered Valuer, dated 24th May 2021;
- (c) Audited financial statements as on 31st March, 2021 of the Company and unaudited financial statements as on 30th April, 2021 of LMWASIL;
- (d) Certificate obtained from the Statutory Auditors of the Company i.e. M/s S Krishnamoorthy & Co to the effect that Scheme is in compliance with the applicable Accounting Standards specified by the Central Government in Section 133 of the Companies Act, 2013; and
- (e) Undertaking with regard to the non-applicability of requirement as prescribed in terms of Paragraph (I)(A)(9)(a) and Paragraph (I)(A)(9)(b) of Annexure I of the Securities and Exchange Board of India ('SEBI') Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 (as amended from time to time) in respect of the Scheme duly certified by the Statutory Auditors.

2. Rationale for the Scheme/ Need for the Arrangement

- 2.1 As on date, the Company operates various business verticals /undertaking/ division viz. Textile Machinery Division, Machine Tool Division, Foundry Division and Advanced Technology Centre (ATC).
- 2.2 The ATC business undertaking of the Company has different capital, operating and regulatory requirements from the rest of the business verticals. Further, the Company is also desirous of scaling up the business operations within aerospace industry.
- 2.3 LMWASIL is a wholly owned subsidiary of the Company and the Company believes that it would be beneficial to restructure its business by divesting the ATC business undertaking into a separate legal entity with sharper and dedicated focus on the aerospace business so as to achieve greater infrastructure sharing, operational efficiencies and cost optimization.

3. Proposed Scheme

- 3.1 The "Appointed Date" for the Scheme means 1st of April, 2022 or such other date as may be approved by the NCLT or such other competent authority;
- 3.2 The "Effective Date" for the Scheme shall be last of the dates on which the certified copy of the order approving the Scheme is filed with the Registrar of Companies, Coimbatore by LMW and LMWASIL;
- 3.3 With effect from the Appointed Date, all assets, liabilities, rights, obligations, contracts and employees pertaining to the ATC business undertaking will be transferred on a going concern basis to LMWASIL;
- 3.4 The consideration for the Scheme shall be a lump sum consideration of INR 90,88,00,000/ - (Rupees Ninety Crore Eighty Eight Lakhs Only), as determined as on the Valuation Date i.e. 31st December, 2020 and adjusted by the increase/(decrease) in the Net Asset Value of the ATC business from the Valuation Date till the Appointed Date ('Purchase Consideration'). LMWASIL will discharge the consideration by issue and allotment of Compulsorily Convertible Debentures ('CCDs') to the Company on the terms and conditions as set out in the Scheme.

4. Impact of the Scheme on the shareholders

LMWASIL is a wholly owned subsidiary of the Company. Pursuant to the Scheme, LMWASIL shall discharge the Purchase Consideration through issue of CCDs. As a result, there will not be any change in the shareholding pattern of the Company and LMWASIL before and after the Scheme. As a result, it will continue to hold the entire value of the business transferred. Therefore, the Scheme shall not be detrimental to the interest of the shareholders of the Company.

5. Cost benefit analysis of the Scheme

The Scheme would enable the transfer of ATC business undertaking of the Company into a separate legal entity with sharper and dedicated focus on the aerospace business so as to achieve greater infrastructure sharing, operational efficiencies and cost optimization.

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

LMWASIL a newly incorporated wholly owned subsidiary of the Company, is set up to have a specific and dedicated focus on the aerospace business being currently pursued by ATC division.

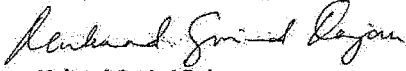
7. Recommendations of the Audit Committee

The Audit Committee after due deliberations and consideration of all the terms of the draft Scheme, Valuation report and the specific points mentioned above, recommends the draft Scheme for favorable consideration by the Board of Directors of the Company, BSE, NSE and Securities Exchange Board of India.

By Order of the Audit Committee

For and on behalf of

Lakshmi Machine Works Limited



Mukund Govind Rajan
Chairman of the Audit Committee

Date: 24th May, 2021

Place: Mumbai