

## Crompton Greaves Limited

Registered Office:  
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Corporate Identity Number(CIN): L99999MH1937PLC002641

Annexure - 3



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### REPORT OF THE RISK & AUDIT COMMITTEE OF CROMPTON GREAVES LIMITED RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN THE COMPANY AND CROMPTON GREAVES CONSUMER ELECTRICALS LIMITED

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#### Members Present:

Mr Shirish Apte:	Chairman (Independent Non-Executive Director)
Mr Sanjay Labroo:	Member (Independent Non-Executive Director)
Dr Omkar Goswami :	Member (Non-Executive Director)

**Leave of absence:** Nil

#### In Attendance:

Mr Madhav Acharya:	EVP & Chief Financial Officer
Ms Minal Bhosale:	Company Secretary

#### By Special Invitation:

Mr Laurent Demortier	CEO & Managing Director
Mr B Hariharan	Non-Executive Director
Dr V Von Massow	Independent Non-Executive Director

## 1. Background

- 1.1. A meeting of the Audit Committee of Crompton Greaves Limited ("**Company**") was held on 3<sup>RD</sup> March 2015 to consider and recommend the proposed demerger of the Consumer Business Undertaking of the Company into Crompton Greaves Consumer Electricals Limited ("**CGCEL**"), the wholly owned Subsidiary of the Company , w.e.f. 1 October 2015, (collectively known as "**Companies**"), to be implemented in terms of a Scheme of Arrangement ("**Scheme**"), entered into between the Company, CGCEL and their respective Shareholders and Creditors under Sections 391 - 394 the Companies Act, 1956 and other applicable provisions of Companies Act, 2013. The Audit Committee confirms withdrawal of the Scheme of Arrangement between the Company and Crompton Greaves Consumer Products Limited.
- 1.2. This report of the Audit Committee is made in order to comply with the requirements of Circular No CIR/CFD/DIL/5/2013 dated February 4, 2013 read with Circular No CIR/CFD/DIL/8/2013 dated May 21, 2013 (which provides clarifications with respect to the aforementioned circular), both issued by the Securities and Exchange Board of India ("**SEBI Circulars**").



1.3. The following documents were placed before the Risk & Audit Committee:

- Draft Scheme of Arrangement, duly initialled by the Company Secretary of the Company for the purpose of identification;
- Share Entitlement Ratio Report dated 3<sup>rd</sup> March 2015 prepared by Price Waterhouse & Co. LLP ('PW&Co), Independent Chartered Accountant, describing the methodology adopted by them in arriving at the Share Exchange Ratio;
- Fairness Opinion dated 3<sup>rd</sup> March 2015 prepared by Axis Capital Limited, an Independent Merchant Banker providing the Fairness Opinion on the Share Exchange Ratio recommended in the Share Entitlement Ratio Report prepared by PW&Co ("**Fairness Opinion**"); and
- Draft Certificate obtained from the Statutory Auditors of the Company dated 3<sup>rd</sup> March 2015, on the accounting treatment prescribed in the Scheme.

## 2. Proposed Scheme of Demerger

2.1. The Audit Committee noted the rationale and the benefits of the Scheme, which including, *inter-alia*, are as follows:

- (i) Demerged Company, by itself and through its subsidiaries, is engaged in 3 (three) distinct lines of business namely:
  - (a) manufacture and distribution of transformers, switchgear, circuit breakers, vacuum interrupters, power automation products, network protection and control gear, as well as design, execution and servicing of turnkey T&D as well as sub-station projects and solutions including complete end to end renewable projects (collectively referred to as the "**Power Business**");
  - (b) manufacture and distribution of power conversion equipment such as high and low voltage rotating machines, drives and industrial automation products, stampings as well as railway transportation and signalling products (collectively referred to as the "**Industrial Systems Business**"); and
  - (c) manufacture and distribution of fans, domestic appliances, lighting, pumps, home automation, integrated security systems and wiring accessories (collectively referred to as the "**Consumer Products Business**").
- (ii) The nature of risk and competition involved in each of the Power and Industrial Systems Business is distinct, given that they operate *inter alia*, in the business to business ("**B2B**") realm from that in the Consumer Products Business, which largely operates in the business to end consumer ("**B2C**") realm, necessitating different management approaches and focus. Moreover, the competitive dynamics of these businesses are also different, with B2B servicing a global product portfolio while B2C being a local consumption business.
- (iii) Thus, separation of the Consumer Products Business, by way of the Scheme, including its business, undertaking and investments from the Demerged Company would lead to significant benefits for both businesses including:



- (a) enhanced strategic flexibility to build a vibrant industrial platform;
  - (b) enable a dedicated management focus and to accelerate growth of the Consumer business unlocking significant value for the shareholders of Crompton Greaves Limited; and
  - (c) access to varied sources of funds for the rapid growth of both businesses.
- (iv) With a view to achieve the aforesaid growth potential, the Demerged Company proposes to re-organise and segregate, by way of the Scheme, its business, undertaking and investments in the Consumer Products Business. The restructuring proposed by this Scheme will also provide an opportunity to the investors to select investments which best suit their investment strategies and risk profiles.

The Scheme does not have any adverse effect on either the shareholders or the employees or the creditors of the Demerged Company

- 2.2. The audit committee reviewed the Share Entitlement Ratio Report and noted that the said Report recommended that every equity shareholder of the Company would receive 1 (one) fully paid up equity share of CGCEL of face value of Rs. 2/- (Rupees Two Only) each for every 1 (one) fully paid up equity share of Rs. 2 (Rupees Two only) each of the Company held, as the share exchange ratio; and
- 2.3. Further, the Fairness Opinion confirmed that the Share Exchange Ratio in the Share Entitlement Ratio Report is fair to the shareholders of the Company and CGCEL.
- 2.4. The equity shares of CGCEL are proposed to be listed on BSE Ltd. and the National Stock Exchange of India Ltd.

### 3. Recommendation of the Audit Committee

The Audit Committee recommends the draft Scheme, taking into consideration the Share Exchange Report, to the Board of Directors of the Company for its approval and for favourable consideration by the Stock exchange(s) and Securities and Exchange Board of India.

By Order of the Audit Committee

For and on Behalf of  
**CROMPTON GREAVES LIMITED**



**Shirish Apte**  
Chairman, Risk & Audit Committee

Place: Delhi

Date: 3 March 2015

