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REPORT OF THE AUDIT COMMITTEE OF ITC LIMITED (“ITC” OR THE “COMPANY”) RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT AMONGST THE COMPANY AND ITC HOTELS LIMITED (“ITC HOTELS”) AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS AT ITS MEETING HELD ON 14TH AUGUST, 2023 AT KOLKATA

1. Background

- 1.1** A meeting of the Audit Committee of the Company was held on 14th August, 2023, to consider and, if thought fit, recommend to the Board of Directors of the Company, the proposed scheme of arrangement amongst the Company and ITC Hotels (the Company and ITC Hotels collectively referred to as, the “Companies”) and their respective shareholders and creditors pursuant to Sections 230 to 232 and other applicable provisions of the Companies Act, 2013, the rules and/or regulations made thereunder (as amended from time to time) (“Companies Act”), Section 2(19AA) read with other relevant provisions of the Income Tax Act, 1961 (as amended from time to time) (“IT Act”) and other applicable laws including the Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 issued by the Securities and Exchange Board of India (“SEBI”) on 20th June, 2023 (as amended from time to time) or any other circulars issued by SEBI applicable to schemes of arrangement from time to time (“SEBI Scheme Circular” and such scheme, the “Scheme”).
- 1.2** The Company is a listed public limited company within the meaning of the Companies Act, 2013. The equity shares of the Company are listed on BSE Limited (“BSE”), National Stock Exchange of India Limited (“NSE”) and Calcutta Stock Exchange Limited (“CSE”). (CSE, BSE and NSE are collectively referred to as the “Stock Exchanges”).
- 1.3** ITC Hotels is a public limited company incorporated under the provisions of the Companies Act, 2013, and is a wholly owned subsidiary of the Company. The equity shares of ITC Hotels is presently not listed on any stock exchange.
- 1.4** In terms of the SEBI Scheme Circular, a report from the Audit Committee (“Committee”) recommending the draft Scheme is required, taking into consideration *inter alia* the SER Report (*as defined hereinafter*), and 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. This report of the Audit Committee has been made in compliance with the requirements of the SEBI Scheme Circular issued by SEBI pursuant to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI LODR Regulations”).

1.5 The following documents were placed before the Committee for its consideration:

- (a) Draft Scheme;
- (b) Share Entitlement Ratio Report dated 14th August, 2023 (“**SER Report**”) issued by Registered Valuer PwC Business Consulting Services LLP (IBBI Registered Valuer Number IBBI/RV-E/02/2022/158), basis which, Resulting Company shall issue shares to the members of the Company;
- (c) Fairness opinion dated 14th August, 2023 (“**Fairness Opinion**”) issued by Messrs. Kotak Mahindra Capital Company Limited, an independent SEBI Registered Category-I Merchant Banker (SEBI Registration No. INM000008704), providing its opinion on the fairness of the Share Entitlement Ratio as provided in the SER Report;
- (d) Auditors’ Certificate dated 14th August, 2023 (“**Auditors’ Certificate**”) issued by Messrs. S R B C & CO LLP (Firm Registration No. 324982E/E300003), the Statutory Auditors of the Company, as required under Section 232(3) of the Companies Act, 2013 certifying that the accounting treatment contained in the draft Scheme is in conformity with the accounting standards prescribed under Section 133 of the Companies Act, 2013;
- (e) Undertaking dated 14th August, 2023 by the Company Secretary, confirming the non-applicability of the requirements under Para A (10)(b) read with Para A (10)(a) of the Part I of the SEBI Master Circular dated 20th June, 2023 relating to obtaining approval of the majority of public shareholders.
- (f) Certificate dated 14th August, 2023 from M/s S R B C & CO LLP, Statutory Auditors of the Company, certifying the undertaking in relation to the non-applicability of the requirements under Para A (10)(b) read with Para A (10)(a) of the Part I of the SEBI Master Circular dated 20th June, 2023 relating to obtaining approval of the majority of public shareholders.

2. Salient features of the Scheme

The Committee discussed and noted the salient features of the Scheme, rationale and the need of the proposed arrangement, synergies of the entities involved, impact of the Scheme on the shareholders and cost benefit analysis of the Scheme as below:

- (a) the Demerger (*as defined in the Scheme*) of the Demerged Undertaking (*as defined in the Scheme*) comprising the Hotels Business (*as defined in the Scheme*) of the Company into ITC Hotels (“**Resulting Company**”), on a going concern basis and in consideration, the consequent issuance of equity shares by ITC Hotels to all the members of the Company in accordance with the Share Entitlement Ratio



(as defined below), pursuant to the provisions of Section 2(19AA) and other relevant provisions of the IT Act;

- (b) various other matters consequential or otherwise integrally connected therewith, including changes to the share capital and securities premium account of the Resulting Company.

2.1 Upon the Scheme becoming effective and in consideration of the Demerger, ITC Hotels shall issue and allot equity shares, credited as fully paid-up to the members of the Company who are holding fully paid up equity shares of the Company and whose names appear in the register of members, including register and index of beneficial owners maintained by the depositories under Section 11 of the Depositories Act, 1996 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 in the following manner, as recommended by PwC:

“for every 10 (Ten) Ordinary Shares of face and paid-up value of Re. 1 each held in ITC, 1 (One) equity share of face and paid-up value of Re. 1 in ITC Hotels” (“Share Entitlement Ratio”)

2.2 The existing shareholding of the Company in ITC Hotels shall continue upon the Scheme becoming effective and following the issuance of the equity shares in accordance with paragraph 2.1 above, the Company’s shareholding in ITC Hotels shall stand at approx. 40% of ITC Hotel’s issued and paid up share capital.

2.3 The equity shares of ITC Hotels will be listed and admitted to trading on the BSE and NSE in compliance with SEBI Scheme Circular and other relevant provisions as applicable.

2.4 The Appointed Date for the proposed Scheme is same as the Effective Date or such other date as may be mutually agreed by the Companies.

2.5 The Effective Date for the proposed Scheme is the date which will be the first day of the month following the month in which Companies mutually acknowledge in writing that all the conditions and matters referred to in Clause 28.1 of the Scheme (as set out below) have occurred or have been fulfilled, obtained or waived, as applicable, in accordance with the Scheme.

2.6 The Scheme is and shall be subject to certain conditions precedent therein, including:

- (a) the Scheme being approved by the requisite majority of members (passed through postal ballot / e-voting, as applicable) and/or creditors (where applicable) of the Company and ITC Hotels as required under the Companies Act, SEBI Scheme Circular and as may be directed by the National Company Law Tribunal, Kolkata Bench (“NCLT”), subject to any dispensation that may be granted by the NCLT.



- (b) the fulfilment, satisfaction or waiver (as the case may be) of any approvals mutually agreed by the Companies as being required for completion of the transactions contemplated under the Scheme.
- (c) receipt of observation or no-objection letter by the Company from the SEBI / Stock Exchanges under Regulation 37 of the SEBI LODR Regulations, in accordance with the SEBI Scheme Circular in respect of the Scheme, on terms acceptable to the Companies.
- (d) the Scheme being sanctioned by the NCLT in terms of Section 230 to Section 232 and other relevant provisions of the Act on terms acceptable to the Companies.
- (e) the certified/authenticated copies of the Sanction Order(s) of the NCLT approving the Scheme being filed with the Registrar of Companies.

2.7 Rationale of the Scheme

2.7.1 ITC is a diversified company engaged in various businesses including hotels. The Hotels Business of ITC includes ownership/ licensing/ management of several hotel properties and providing services including accommodation, dining, banqueting etc.

2.7.2 The Hotels Business of ITC has matured over the years and is well poised to chart its own growth path and operate as a separate listed entity in the fast-growing hospitality industry whilst continuing to leverage ITC's institutional strengths, strong brand equity and goodwill. Therefore, the Scheme is being proposed to segregate Hotels Business from Remaining Business (*as defined in the Scheme*) of ITC and demerge it into ITC Hotels. The proposed Scheme would be in the best interests of the Companies and their respective shareholders, employees, creditors and other stakeholders for the following reasons:

- (a) The confluence of favourable factors such as rising societal aspirations, strong macro-economic fundamentals of the country, Government of India's thrust on the Travel & Tourism industry and infrastructure creation along with rapid digitalization present immense opportunities for the Hotels Business going forward, though distinct from the other businesses of ITC.
- (b) In light of the distinctive profile of the hospitality industry, housing the Hotels Business in a separate listed entity would enable crafting of the next horizon of growth and sustained value creation for shareholders through sharper focus on the business anchored on a differentiated strategy aligned with industry specific market dynamics.



- (c) ITC Hotels is a newly incorporated entity which will have the ability to raise capital from equity and debt markets towards funding its growth requirements.
- (d) ITC Hotels as a focused entity would attract the right sets of investors, strategic partners and collaborations, whose investment strategies and risk profiles are aligned more sharply with the hospitality industry.
- (e) The Scheme would unlock value of the Hotels Business for existing shareholders of ITC through independent market driven valuation of their shares in ITC Hotels which will be listed pursuant to the Scheme, along with the option and flexibility to remain invested in a pure play hospitality focused listed entity.
- (f) The Scheme will ensure long term stability and strategic support to ITC Hotels and also enable the leveraging of cross synergies between the two Companies.

2.8 Need for the arrangement

The Company is engaged in various businesses including Hotels Business. The Hotels Business has matured over the years, and is well poised to chart its own growth path and operate as a separate listed entity in the fast growing hospitality industry, while continuing to leverage ITC's institutional strengths, strong brand equity and goodwill.

It is therefore proposed to segregate the Hotels Business from the remaining business undertaken by the Company through the proposed Scheme.

Scheme will result in the listing of ITC Hotels as a separate entity for Hotels Business which *inter-alia* will:

- (i) facilitate independent pursuit of accelerated growth with sharper focus on the business based on a differentiated strategy aligned with industry dynamics;
 - (ii) provide the shareholders of the Company, the option and flexibility to remain invested in a pure play hospitality focused listed entity;
 - (iii) enable the independent company to operate with an optimal capital structure and attract different set of investors, strategic partners, lenders and other stakeholders having specific interest in the Hotels Business and as well allow potential investors and other shareholders the option of being associated with business of their choice;
 - (iv) unlock value for the shareholders.
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2.9 Synergies of business of the entities involved in the Scheme

The demerger will create a separate listed company comprising the Hotels Business thereby unlocking the potential value of the Hotels Business for the Company's shareholders. Since ITC will continue to hold appx. 40% stake in ITC Hotels post Demerger, it will ensure long term stability apart from providing strategic support to ITC Hotels.

ITC Hotels will continue to leverage on ITC's brand reputation, sustainability credentials, talent pool, digital capabilities, robust governance, systems & processes, sourcing quality products etc. through suitable arrangements and institutional mechanisms. Similarly, ITC will continue to be benefitted by the cuisine knowledge of ITC Hotels in creating differentiated & high quality branded food products including food tech creations apart from continuing to provide a platform for high quality consumer engagements & brand visibility for its FMCG brands. Thus, the proposed Demerger is expected to provide synergistic benefits to both ITC and ITC Hotels.

2.10 Impact of the Scheme on the shareholders of the Company

- (i) The Scheme by way of segregating Hotels Business is expected to be beneficial to the shareholders of the Company as it would enable crafting of the next horizon of growth and sustained value creation for shareholders.
- (ii) All the shareholders of the Company shall, upon Demerger be the ultimate beneficial economic owners of ITC Hotels and upon allotment of equity shares of ITC Hotels as per Share Entitlement Ratio recommended under the SER Report, the ultimate beneficial economic interest of the shareholders in the share capital of ITC Hotels shall be the same as in the share capital of the Company. That is, shareholders of the Company will have direct interest over ITC Hotels through the approx. 60% of the share capital proposed to be issued by ITC Hotels (*in the same proportion as they hold shares in the Company*) and approx. 40% of the interest in ITC Hotels will be held indirectly through their shareholding in the Company.
- (iii) Further, the shareholders of the Company will have the option and flexibility to remain invested in a pure play hospitality focused listed entity. The shareholders of the Company will also *inter-alia* benefit from the Company's strategic support to ITC Hotels, long term stability of ITC Hotels under the proposed demerger and continued access to synergies for both the Company and ITC Hotels.

Thus, the Scheme is expected to be beneficial to the shareholders of the Company.

2.11 Cost benefit analysis of the Scheme

The Audit Committee is of the view that the benefits of the Scheme for the Company and its stakeholders as stated in para 2.7, 2.8 and 2.9 above would far outweigh the transaction costs relating to its implementation.



3. Recommendation of the Audit Committee

- 3.1** The Audit Committee has reviewed the SER Report and noted the recommendations that the proposed Share Entitlement Ratio is fair and reasonable. Further, the Fairness Opinion has confirmed the recommended Share Entitlement Ratio in the SER Report as being fair to the shareholders of the Company.
- 3.2** Taking into consideration the draft Scheme, SER Report, Fairness Opinion, 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, as placed, the Audit 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.



(A. Duggal)

Chairman - Audit Committee

DIN: 00024262

Date: 14th August, 2023

Place: Kolkata