



ITC Limited
Virginia House
37 J. L. Nehru Road
Kolkata 700 071, India
Tel. : 91 33 2288 9371
Fax : 91 33 2288 4016 / 1256 / 2259 / 2260

REPORT OF THE INDEPENDENT DIRECTORS 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 Independent Directors Committee of the Company was held on 14th August, 2023, to consider and, if thought fit, to recommend to the Board of Directors of the Company, the proposed scheme of arrangement amongst Company and ITC Hotels (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 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 Company. The shares of ITC Hotels are presently not listed on any stock exchange.
- 1.4 In terms of the SEBI Scheme Circular, a report from the Independent Directors Committee (“**Committee**”) recommending the draft Scheme is required, taking into consideration, *inter alia*, that the Scheme is not detrimental to the shareholders of the Company. This report of the Independent Directors 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 No. IBBI/RV-E/02/2022/158), basis which, Resulting Company shall issue shares to the members of the Company;
- (c) Fairness Opinion Report 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 benefits of the proposed Scheme and impact of the Scheme on the shareholders, including 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 the shareholders 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, as per the Share Entitlement Ratio (*as defined below*), issue and allot equity shares, credited as fully paid-up to the members of the Company who are holding fully paid up Ordinary Shares 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:

“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 the issued and paid up share capital of ITC Hotels.

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.

924

- (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.

3 Rationale of the Scheme - The Committee noted the rationale and the benefits of the Scheme which, inter-alia, are as stated below:

3.1 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.

3.2 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.

24

- (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.

4 Scheme not detrimental to the shareholders of the Company

The Independent Directors Committee discussed and deliberated upon the rationale and salient features of the Scheme, including as below:

- (a) ITC Hotels will issue and allot equity shares, as per the Share Entitlement Ratio, credited as fully paid-up to the shareholders of the Company, in the manner as set out in paragraph 2.1 above, and in accordance with the recommendation under the SER Report and the Fairness Opinion. Further, the existing shareholding of the Company in ITC Hotels shall continue upon the Scheme becoming effective, such that the Company's shareholding in ITC Hotels shall stand at approx. 40% of ITC Hotels' issued and paid up share capital on the Scheme coming into effect.
- (b) If the allotment of shares of ITC Hotels in accordance with the Share Entitlement Ratio will result in any shareholders of ITC being issued fractional shares, then the fractional entitlements shall be strictly dealt with in the manner set out in SEBI Scheme Circular i.e. the fractional shares shall be consolidated and allotted to trustee(s) authorized by the Board of ITC Hotels for sale and distribution of net sale proceeds to the shareholders in proportion to their respective fractional entitlements, within a period of 90 days from the date of allotment of shares, subject to deduction of applicable taxes and related expenses.
- (c) Shares issued by ITC Hotels pursuant to the Demerger shall rank *pari passu* in all respects with the existing shares of ITC Hotels. The shares of ITC Hotels shall be listed and/or admitted to trading on NSE and BSE.
- (d) There will be no detrimental impact on the shareholders of the Company due to the proposed Scheme, given 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.

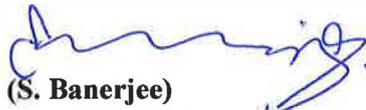


- (e) The shareholders of the Company will have the option and flexibility to remain invested in a pure play hospitality focused listed entity. Further, the shareholders of the Company will also *inter-alia* benefit from the Company's strategic support to ITC Hotels, long term stability of ITC Hotels under the proposed demerger and continued access to synergies for both the Company and ITC Hotels.

On the basis of the above, the Committee concluded that the Scheme is not detrimental to the shareholders of the Company.

5 Recommendation of the Independent Directors Committee

The Independent Directors Committee after due deliberations and due consideration of all the terms of the draft Scheme, the above rationale, the SER Report, Fairness Opinion and the specific points mentioned above including that the Scheme is not detrimental to the shareholders of the Company, recommends the draft Scheme for favourable consideration and approval by the Board of Directors of the Company, Stock Exchanges, SEBI and other appropriate authorities.



(S. Banerjee)
Chairman of the Meeting
Independent Directors Committee
DIN: 02922331

Date: 14th August, 2023

Place: Kolkata