



REPORT ADOPTED BY THE AUDIT COMMITTEE OF TATA CONSUMER PRODUCTS LIMITED ("THE COMPANY") RECOMMENDING THE DRAFT COMPOSITE SCHEME OF ARRANGEMENT AMONGST THE COMPANY, TATA COFFEE LIMITED AND TCPL BEVERAGES & FOODS LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

1 Background

- 1.1 A meeting of the Audit Committee of the Company was held on March 29, 2022, to consider and recommend to the Board of Directors, the proposed composite scheme of arrangement amongst the Company, Tata Coffee Limited ("**TCL**") and TCPL Beverages & Foods Limited ("**TBFL**") (the Company, TCL and TBFL are 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 (including any statutory modification(s) or re-enactment(s) thereof for the time being in force) ("**Companies Act**") and other applicable laws including the master circular no. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 issued by the Securities and Exchange Board of India ("**SEBI**") on November 23, 2021 (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 incorporated under the provisions of the Companies Act, 1956. The equity shares of the Company are listed on BSE Limited ("**BSE**"), National Stock Exchange of India Limited ("**NSE**") and the Calcutta Stock Exchange Limited ("**CSE**") (CSE, BSE and NSE are collectively referred to as the "**Stock Exchanges**").
- 1.3 TCL is a listed public limited company incorporated under the provisions of the Companies Act, 1913, and is a subsidiary of the Company. The equity shares of TCL are listed on the BSE and NSE.
- 1.4 TBFL is a public limited company incorporated under the provisions of the Companies Act, 2013, and is a wholly owned subsidiary of the Company.
- 1.5 In terms of the SEBI Scheme Circular, a report from the Audit Committee recommending the draft Scheme is required, taking into consideration *inter alia* the Valuation 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 is 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**").

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11/13 Botawala Building 1st Floor Office No 2-6 Horniman Circle Fort Mumbai 400 001 India

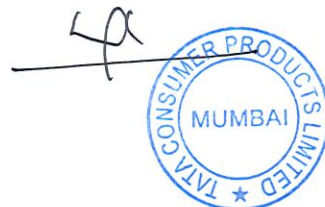
Tel: 91-22-6121-8400 | Fax: 91-22-61218499

Registered Office: 1, Bishop Lefroy Road, Kolkata – 700 020

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Email: investor.relations@tataconsumer.com

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2 Salient features of the Scheme

2.1 *Inter alia* the following are proposed under the Scheme:

- (a) as a first step, the demerger of the Demerged Undertaking (*as defined in the Scheme*) (comprising of the Plantation Business (*as defined in the Scheme*)) of TCL into TBFL and in consideration, the consequent issuance of equity shares by the Company (*as the holding company of TBFL*) to all the shareholders of TCL (other than the Company) in accordance with the Share Entitlement Ratio (*as defined below*), pursuant to the provisions of Section 2(19AA) read with Section 2(41A) and other relevant provisions of the Income Tax Act, 1961 (including any statutory modifications, re-enactments or amendments thereof and the rules made thereunder, for the time being in force) (“IT Act”) (“**Demerger**”);
- (b) as a second step, followed immediately by the amalgamation of TCL (*comprising the Remaining Business of TCL (as defined in the Scheme)*) with the Company and in consideration, the consequent issuance of equity shares by the Company to all the shareholders of TCL (other than the Company) in accordance with the Share Exchange Ratio (*as defined below*), pursuant to the provisions of Section 2(1B) and other relevant provisions of the IT Act (“**Amalgamation**”); and
- (c) various other matters consequential or otherwise integrally connected therewith.

2.2 Upon the Scheme becoming effective and in consideration of the Demerger, the Company shall issue and allot equity shares, credited as fully paid-up to the members of TCL (except the Company) who are holding fully paid up equity 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, of TCL, 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:

“1 (one) fully paid up equity share of Re. 1/- each of the Company shall be issued and allotted for every 22 (twenty-two) fully paid up equity shares of Re. 1/- each held in TCL. (“Share Entitlement Ratio”)”

2.3 Upon the Scheme becoming effective and in consideration of the Amalgamation, the Company shall issue and allot equity shares, credited as fully paid-up to the members of TCL (except the Company) who are holding fully paid up equity 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, of TCL, 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:

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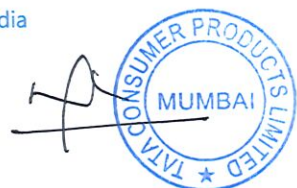
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"14 (fourteen) fully paid up equity shares of Re. 1/- each of the Company shall be issued and allotted for every 55 (fifty-five) fully paid up equity shares of Re. 1/- each held in TCL." ("Share Exchange Ratio")

- 2.4 The issuance of equity shares in accordance with paragraph 2.2 above, in consideration of the Demerger and in accordance with paragraph 2.3 above in consideration of the Amalgamation, will be undertaken simultaneously following effectiveness of the Scheme. Following the issuance of the equity shares in accordance with paragraph 2.3 above, the existing shareholding of the Company in TCL shall stand cancelled and extinguished without any further act, instrument or deed.
- 2.5 The equity shares to be issued by the Company to the members of TCL (other than the Company) who hold shares of TCL on the record date, pursuant to the Scheme, will be listed and admitted to trading on the Stock Exchanges.
- 2.6 The Appointed Date for the proposed Scheme is the same date as the Effective Date or such other date as may be mutually agreed by the Companies. The Effective Date for the proposed Scheme is the date which will be the first day of the month following the month in which the last of the conditions and matters referred to in Clause 29.1 of the Scheme occur or have been fulfilled, obtained or waived, as applicable, in accordance with the Scheme.
- 2.7 On the Effective Date, the Demerger shall be made effective and operative first; and the Amalgamation shall be made effective immediately after the Demerger.
- 2.8 The Scheme is and shall be subject to certain conditions precedent therein, including:
- (a) the fulfilment, satisfaction or waiver (as the case may be) of any approvals or consents from third parties, as may be mutually agreed by the Companies as being required for completion of the transactions contemplated under the Scheme;
 - (b) receipt of observation or no-objection letters by the Company from the Stock Exchanges and by TCL from BSE and NSE under Regulation 37 of the SEBI LODR Regulations, 2015, in accordance with the SEBI Scheme Circular in respect of the Scheme, on terms acceptable to the Companies;
 - (c) the Scheme being approved by the requisite majority of each class of members and/or creditors (where applicable) of the Companies in accordance with the Companies Act and as may be directed by the National Company Law Tribunal(s) ("NCLT(s)");
 - (d) the Scheme being approved by the public shareholders of the Company and TCL through e-voting as required under the SEBI Scheme Circular;
 - (e) the Scheme being sanctioned by the NCLT(s) in terms of Section 230 to Section 232 and other relevant provisions of the Companies Act on terms acceptable to the Companies; and
 - (f) the certified copies of the sanction order(s) of the NCLT(s) approving the Scheme being filed with the relevant registrar of companies having jurisdiction over the Companies.

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2.9 Impact of the Scheme on the shareholders:

The Scheme is expected to be beneficial to the shareholders of the Company leading to opportunity for growth and value creation in the long run and maximizing the value and returns to the shareholders, achieving cost and operational efficiencies. The equity shares will be issued by the Company on account of the Scheme which will result in dilution of the existing shareholding in the Company and the shareholders of the Company in turn will benefit on account of a) synergies which are expected to accrue to the Company; b) creation of efficient management and administration which will in help in creating the future ready organogram and c) focused alignment of business verticals of the Company.

2.10 Need for the arrangement:

With the objective of creating future ready organization, the Company is of the view that converging the minority interests of subsidiaries of TCPL will lead to a single listed entity resulting in faster decision making. The Scheme will result in consolidation of TCL with the Company and of the shareholding of Consolidated Coffee Inc., which holds Eight O' Clock business, in the Company resulting in simplification of the group structure and higher stakeholder accountability.

2.11 Cost benefit analysis of the Scheme:

The Scheme is expected to provide an opportunity to improve the economic value for the Companies involved in the Scheme and their stakeholders pursuant to the consolidation. This is primarily on account of revenue and cost synergies which are expected to accrue to the Company on account of the Scheme and more particularly detailed out in paragraph 2.12 below. While the proposed Scheme would lead to transaction costs relating to its implementation, the benefits of the Scheme outweigh such costs for the Company and its stakeholders.

2.12 Synergies of business of the entities involved in the Scheme:

The Scheme would enable integration of TCL and TCPL's extraction business activities under a single entity which will result *inter alia* in focused management attention, operational efficiencies, revenue and cost synergies including from commonality of customers, sales and supply chain opportunities through enhanced geographical reach with a wider variety of product offerings which will help in gaining market share, optimization of capital, operational (including promotion) expenditure, leveraging sales and distribution network and simplification of overlapping infrastructure. The Scheme is expected to provide opportunity to the Company to unlock potential synergies on the following areas:

- Revenue and distribution: Integration of extraction business, leveraging sales and distribution network and simplification of overlapping infrastructure. Supply chain

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opportunities through enhanced geographical reach with a wider variety of product offerings

- Manpower: Dedicated and specialized management focus on the specific needs of the respective businesses and optimization of cost structure
- Other efficiencies: Better resource allocation, unified approach on customer engagement and the legal and regulatory compliances of both the listed entities will be unified and streamlined

3 Rationale of the Scheme

- 3.1 The Company is currently engaged in a consumer product business, with a food and beverage portfolio, with operations across the globe. The operations of TCL and its subsidiaries are substantially in instant coffee extraction, branded coffee and plantation businesses. TCL is currently a subsidiary of the Company. The Scheme is being proposed with a view to simplifying the management and operational structures of the Companies in order to increase efficiencies and generate synergies.
- 3.2 The proposed Scheme would be in the best interest of the Companies and their respective shareholders, employees, creditors and other stakeholders as the proposed restructuring pursuant to the Scheme is expected, inter alia, to result in the following benefits:

Benefits of the Demerger

- (a) Creating a dedicated plantation vertical with focused attention on the plantation business, which will enable increased efficiencies and generate synergies amongst the various plantation businesses wholly or partly owned by the Company and better resource allocation, resulting in enhancement of shareholders' value.
- (b) The shareholders of TCL (other than the Company) will be allotted shares of the Company and therefore will be shareholders of a larger branded consumer products business with multiple growth avenues and at the same time, will continue to participate in the plantation business.
- (c) The profile, operations, management risk and return associated with the Plantation Business is distinct from that of the Remaining Business and therefore the Scheme would lead to sharper focus on both the businesses.

Benefits of the Amalgamation

- (a) Integration of TCL and the Company's extraction business activities under a single entity through the amalgamation will result *inter alia* in focused management attention, operational efficiencies, revenue and cost synergies including from commonality of

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customers, sales and supply chain opportunities through enhanced geographical reach with a wider variety of product offerings which will help in gaining market share, optimization of capital, operational (including promotion) expenditure, leveraging sales and distribution network and simplification of overlapping infrastructure.

- (b) The amalgamation of TCL with the Company would bring about synergy of operations and benefit of scale and additionally, the legal and regulatory compliances of both the listed entities will be unified and streamlined.
- (c) The amalgamation will enable efficient consolidation of ownership interests in the international branded business owned by the Company and TCL which will result in cost benefits, higher operating and other efficiencies.

3.3 Therefore, in view of the above, the implementation of the Scheme will result in the following benefits:

- (a) Dedicated and specialized management focus on the specific needs of the respective businesses.
- (b) Having one listed company for consumer and related businesses and convergence of minority interests from TCL into the Company.
- (c) Benefit to all the stakeholders of the Company, TCL and TBFL, leading to opportunity for growth and value creation in the long run and maximizing the value and returns to the shareholders.
- (d) Unified approach on customer engagement, distribution and supply chain management would lead to operational and financial efficiencies in all these functions.

4 Documents placed before the Audit Committee

- (a) Draft Scheme, duly initialed by the Company Secretary of the Company for the purpose of identification;
- (b) **Independent Valuation Report** dated March 29, 2022 (“**Valuation Report**”) issued jointly by SSPA & Co, Independent Chartered Accountants & Registered Valuers, (IBBI Registered Valuer Number IBBI/RV-E/06/2020/126) and PWC Business Consulting Services LLP, Registered Valuers, (IBBI Registered Valuer Number IBBI/RV-E/02/2022/158), describing, *inter alia*, the methodologies adopted by them in arriving at the recommended Share Entitlement Ratio and Share Exchange Ratio and setting out the detailed computation of Share Entitlement Ratio for the proposed Demerger and the Share Exchange Ratio for the proposed Amalgamation;

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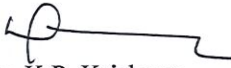




- (c) **Fairness opinion dated** March 29, 2022 (“**Fairness Opinion**”) issued by Kotak Mahindra Capital Company Limited, SEBI registered Category I Merchant Banker, Mumbai (SEBI Registration No. INM000008704), providing its opinion on the fairness of the Share Entitlement Ratio and the Share Exchange Ratio, as recommended in the Valuation Report;
- (d) **Auditors’ Certificate** dated March 29, 2022 issued by Deloitte Haskins & Sells LLP (Firm Registration No. 117366W/W-100018), the statutory auditors of the Company, as required under Section 232(3) of the Companies Act 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; and
- (e) 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 has confirmed that the recommended Share Entitlement Ratio and the Share Exchange Ratio by the valuers in the Valuation Report are fair to the shareholders of the Company.
- 5.2 Taking into consideration the draft Scheme, Valuation 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 recommends the draft Scheme for favourable consideration and approval by the Board of Directors of the Company, Stock Exchanges, SEBI and other appropriate authorities.


Dr. K.P. Krishnan
Chairperson
Audit Committee
DIN: 01099097



Date: March 29, 2022

Place: Mumbai

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