



K.M. Sugar Mills Ltd.

Factory & Works : P.O. Motinagar-224201, Dist. Ayodhya (U. P.)
Phone : 7571000692, Email : director@kmsugar.com
CIN No.:L15421UP1971PLC003492 GSTIN No.:09AAACK5545P1ZZ

To,
The Board of Directors
K M SUGAR MILLS LIMITED
76, Eldeco Greens,
Gomtinagar, Lucknow,
Uttar Pradesh – 226010

Report on recommendations of the Independent Directors Committee of K M Sugar Mills Limited on the Scheme of Arrangement for Demerger of 'Distillery Division' ('Demerged Undertaking') of K M Sugar Mills Limited ('Demerged Company')/ 'the Company') into K M Spirits and Allied Industries Limited ('Resulting Company').

A meeting of Independent Director Committee of K.M. Sugar Mills Limited was held on 7th August, 2025 to consider and recommend the proposed Scheme of Arrangement for Demerger of 'Distillery Division' ('Demerged Undertaking') of K M Sugar Mills Limited ('Demerged Company')/'the Company') into K M Spirits and Allied Industries Limited ('Resulting Company') under Sections 230 to 232 of the Companies Act, 2013 ('Scheme'/'Scheme of Arrangement'), in accordance with the SEBI Master Circular no. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023 (SEBI Master Circular) and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"). The report of the Company is being made in order to comply with the requirements of the aforesaid SEBI Master Circular. The Independent Director committee has considered and reviewed the said Scheme of Arrangement and drawn out the following major points:

1. Background of the Companies involved in the proposed scheme:

- A. K M SUGAR MILLS LIMITED (hereinafter also referred to as 'KMSML' or 'Demerged Company'), bearing CIN L15421UP1971PLC003492, was incorporated on 17th December 1971, under the provisions of the Companies Act, 1956, having its registered office at 76, Eldeco Greens, Gomtinagar, Lucknow, Uttar Pradesh – 226010. The Demerged Company is engaged in a diversified business of manufacturing and selling sugar and other businesses, including the running of a bagasse-based cogeneration Power plant ('Sugar Manufacturing Division') and Distillery business, manufacturing, selling and distributing the Rectified Spirit,

Ethanol, Country Liquor and Extra Neutral Alcohol (ENA). The Equity Shares of the Demerged Company are listed on the bourses of BSE Limited (BSE) and National Stock Exchange of India Limited (NSE).

B. KM SPIRITS AND ALLIED INDUSTRIES LIMITED (hereinafter also referred to as 'KMSAIL' or 'Resulting Company') bearing CIN U15100UP2018PLC101321 was incorporated on 23rd February 2018, under the provisions of Companies Act, 2013, having its registered office at 76, Eldeco Greens Gomtinagar, Uttar Pradesh – 226010. The main object of the memorandum of association of the Resulting Company includes the manufacturing of Rectified Spirit, Ethanol, Country Liquor and Extra Neutral Alcohol (ENA). The Resulting Company is a wholly owned subsidiary of the Demerged Company.

2. Following documents were placed before the Independent Director Committee:

- 2.1 Draft Scheme on the proposed Scheme of Arrangement for Demerger of 'Distillery Division' ('Demerged Undertaking') of K M Sugar Mills Limited ('Demerged Company/ 'the Company') into K M Spirits and Allied Industries Limited ('Resulting Company');
- 2.2 Share Entitlement Report containing the Share Entitlement Ratio dated 7th August, 2025, issued by Axiology Valuetech Private Limited, Registered Valuer Entity- all classes (Registration No. IBBI/RV-E/05/2023/201);
- 2.3 Fairness opinion dated August 07, 2025, obtained from Corporate Professional Capital Private Limited, SEBI Registered, Category-I, Merchant Banker;
- 2.4 Undertaking dated August 07, 2025 from Aditya Jhunjhunwala, Managing Director, on the non-applicability of Para (A) (10) (b) of SEBI Master Circular no. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023, relating to the approval of majority public shareholders;
- 2.5 Certificate of the statutory auditor dated August 07, 2025 certifying the non-applicability of Para (A) (10) (b) of SEBI Master Circular no. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023, relating to the approval of majority public shareholders;

3. Salient features of Scheme of Arrangement:

The committee noted the following salient features of the scheme:

- 3.1 The Scheme, inter alia, provides for the Demerger of the Distillery Division of the Demerged Company into the Resulting Company as a going concern and in consideration, the consequent issuance of the equity shares of the Resulting Company to all the shareholders of the Demerged Company in accordance with the Share Entitlement Ratio determined by the Independent Registered Valuer.
- 3.2 Simultaneously, with the aforesaid allotment of equity shares by the Resulting Company upon effectiveness of the Scheme, the existing equity shares of the Resulting Company as held by the Demerged Company shall stand cancelled and the Resulting Company shall issue its fresh equity shares to the shareholders of the Demerged Company in the same proportion in which they hold the equity shares in the Demerged Company thereby creating a replica shareholding structure in the Resulting Company.
- 3.3 Upon cancellation of the equity shares of the Resulting Company as held by the Demerged Company, the Resulting Company shall cease to be a wholly owned subsidiary of the Demerged Company and shall continue as a separate and independent entity.
- 3.4 Further, the shares issued as consideration by the Resulting Company to the shareholders of the Demerged Company pursuant to the Scheme shall be listed on BSE and NSE.

4. Need and Rationale of the Scheme of Arrangement:

The committee noted the rationale and benefit of the Scheme, which, inter alia, are stated below:

The Demerged Company is engaged in a diversified range of businesses, broadly categorized into two business divisions - (1) manufacturing and selling of sugar and other residual business including the running of a bagasse-based cogeneration Power plant ('Sugar Manufacturing Division'), and (2) Distillery business, manufacturing, selling and distribution of Rectified Spirit, Ethanol, Country Liquor and Extra Neutral Alcohol (ENA).

- 4.1 Both the above businesses have their own distinct business dynamics, regulatory environment, customer base and their needs. There is a clear distinction in the growth prospects and risk profile of the two business divisions.
 - 4.2 Over the years, the Distillery Division has matured into a robust and independent business with substantial growth potential. Given the dynamic growth, the Distillery Division is now well-positioned to pursue its own strategic and operational priorities as a separate entity.
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- 4.3 The nature of risk, competition, challenges, opportunities and business methods for the Distillery Division is separate and distinct from the Remaining Business (*as defined in the Scheme*) carried out by the Demerged Company. Further, the way the Distillery Division is required to be handled and managed is not similar to that of the Remaining Business.
- 4.4 In order to provide enhanced focus to the operations of the Demerged Undertaking, the Companies have proposed to segregate and organise the Distillery Division as a separate entity. Therefore, the Scheme is being proposed to demerge the Distillery Division of the Demerged Company into the Resulting Company, which is expected to yield the following benefits:
- i. In light of the distinct operational characteristics of the Distillery Division, including seasonality, regulatory oversight, policies and subsidy framework, the establishment of an independent entity focusing exclusively on the Distillery Division will enable exploration of sector-specific opportunities, a sharper focus and enhance operational efficiency.
 - ii. Segregating the Distillery Division will provide greater strategic flexibility to tailor approaches specific to its unique operational and market dynamics, enabling it to realize its full potential while effectively de-risking the businesses from one another.
 - iii. Unlocking shareholders' value by enabling independent, market-driven valuation of the Distillery Division through the listing of the equity shares of the Resulting Company on the Stock Exchanges on which shares of the Demerged Company are listed, pursuant to the Scheme, thereby offering shareholders the option and flexibility to continue their investment in a Distillery business-focused listed entity.
 - iv. The separation of businesses with distinct risk and return profiles will enable each independent entity to attract different sets of investors, strategic partners, lenders and other stakeholders, thereby enhancing focused capital raising, future expansion and new growth opportunities.
 - v. The Resulting Company will be better positioned to align its resources, talent, marketing strategies, and innovation initiatives around a singular sector, which will, in turn, strengthen its competitive advantage and enable the creation of a more agile and efficient management structure.
 - vi. The Demerger will provide greater transparency in the performance of each entity, enabling a clearer focus on their respective growth trajectories. This will allow both entities to build their strong brand

presence. Thus, this enhanced visibility will contribute to long-term stability and further strengthen the companies' future portfolios.

- vii. The demerger will help each of the entities to channelize resources required for all the businesses to focus on the growing businesses and attract the right talent, and provide enhanced growth opportunities to existing talent in line with a sharper strategic focus on each business segment under separate entities.

Further, the listing of the equity shares of the Resulting Company on the stock exchanges on which shares of the Demerged Company are listed would help the shareholders of the Demerged Company to unlock the value of their shares.

5. Scheme Not Detrimental to the Shareholders of the Company:

The Audit Committee noted the following:

- 5.1 Upon the coming into effect of the Scheme and in consideration of transfer and vesting of the Demerged Undertaking in the Resulting Company pursuant to Part II of the Scheme, the Resulting Company shall, without any further act or deed, issue and allot equity shares credited as fully paid up equity shares, to the extent indicated below, on a proportionate basis to the members of the Demerged Company holding fully paid up equity shares in the Demerged Company and whose name appear in the register of shareholders and records of the depository as shareholders of the Demerged Company as on a Record Date, in the ratio as under:
“1 (One) equity share of face value of Rs. 10/- (Rupees Ten) each at par in the ‘Resulting Company’ for every 5 (Five) Equity Shares of face value of Rs. 2/- (Rupees Two) each held by them in the Demerged Company”
- 5.2 Simultaneously, the existing equity shares of the Resulting Company as held by the Demerged Company shall stand cancelled and the Resulting Company shall issue its fresh equity shares to the shareholders of the Demerged Company in the same proportion in which they hold the equity shares in the Demerged Company as mentioned under para 5.1 above, thereby creating a replica shareholding structure in the Resulting Company.
- 5.3 Upon cancellation of the equity shares of the Resulting Company as held by the Demerged Company, the Resulting Company shall cease to be a wholly owned subsidiary of the Demerged Company and shall become a separate and independent entity.

5.4 Further, the shares issued as consideration by the Resulting Company to the shareholders of the Demerged Company pursuant to the Scheme shall be listed on BSE and NSE.

In light of the above, the Scheme will not adversely affect the rights or interests of any stakeholder of the Demerged Company, including its shareholders or creditors.

6. Recommendation of the Independent Director Committee:

Having considered the documents placed before the Committee, i.e. draft Scheme, Share Entitlement Report, Fairness Opinion, the Independent Director Committee hereby unanimously recommends that the aforesaid Scheme of Arrangement for Demerger is not detrimental to the interest of the Shareholders of the Company.

For and on behalf of the Committee of Independent Directors of
K M SUGAR MILLS LIMITED



Bibhas Kumar Srivastav
DIN: 06533710
(Chairman of the meeting)



Place: Lucknow

Date: 07.08.2025