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 of Audit 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 Audit Committee of K M Sugar Mills Limited ('the Company') 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 Audit Committee has considered and reviewed the Scheme and drawn out the following major points:

1. Background:

1.1 Demerged Company:

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 Companies Act, 1956, having its registered office at 76, Eldeco Greens, Gomtinagar, Lucknow, Uttar Pradesh – 226010. The Demerged Company is engaged in diversified business of manufacturing and selling of sugar and other residual business including the running of a bagasse-based cogeneration Power plant ('Sugar Manufacturing Division') and Distillery business including but not limited to manufacturing, selling and distribution of 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).

1.2 <u>Resulting Company:</u>

K M 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.

1.3 The Scheme inter alia, provides for the Demerger of 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.

2. Following documents were placed before the Audit 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 7th August, 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;

2.6 Certificate dated 7th August, 2025 issued by Mehrotra & Mehrotra, Charter Accountants, the Statutory Auditors of the Company, in accordance with Para A (2) (g) of the SEBI Master Circular no. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023 and the provisos to Section 230(7) and 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.

3. Need and rationale of the Scheme is as follows:

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 including but not limited to manufacturing, selling and distribution of Rectified Spirit, Ethanol, Country Liquor and Extra Neutral Alcohol (ENA).

3.1 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.

3.2 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.

3.3 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.

3.4 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.

4. <u>Synergies of Business of the entities involved in the Scheme:</u>

The Demerger will create a separate listed entity comprising of the Distillery business thereby unlocking the potential value of the Distillery Division for the Company's Shareholders. Further, The Audit Committee noted that the Scheme relates to the demerger of the Distillery Division from the Demerged Company into the Resulting Company to create an independent listed company. The said demerger would entail the benefits specified in para 3 above.

The Demerged Undertaking operates as an independent, self-reliant, and integrated facility, with substantial growth potential. The Distillery business is expected to maintain operational efficiency and continuity post-demerger. The transfer of the Distillery Division from the Demerged Company to the Resulting Company is anticipated to be seamless, ensuring the preservation of existing synergies and minimal disruption to ongoing operations.

5. Cost Benefit Analysis of the Scheme:

After evaluation of the proposed draft Scheme, the Audit Committee is of the view that the benefits of the Scheme for the stakeholders of the Company in terms of sharpened focus and other benefits as specified in Paragraphs 3 above far outweigh the transaction costs for the implementation of the Scheme.

The present Scheme of Arrangement for Demerger is a tax neutral transaction. Further, the present Scheme of Arrangement for Demerger will unlock the value of the Distillery Division and achieve prosperity in this segment. Thus, the Audit Committee believes that the Scheme will be beneficial for the Demerged Company and Resulting Company.

6. Impact of the Scheme on the Shareholders:

The Audit Committee noted the following:

6.1 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"

6.2 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 6.1 above, thereby creating a replica shareholding structure in the Resulting Company.

6.3 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.

6.4 Further, the shares issued as a consideration by 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 interest of any stakeholder of the Demerged Company including its shareholders or creditors.

7. Recommendations of the Audit Committee

Having considered the documents placed before the Committee i.e., draft Scheme, Share Entitlement Report, Fairness Opinion, Undertaking and Auditor's Certificate 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, the Audit Committee hereby unanimously recommends the draft Scheme for favorable consideration of the Board of Directors of the Company, Stock Exchanges, and Securities and Exchange Board of India and such other Authorities, as applicable.

By the order of Audit Committee
For K M SUGAR MILLS LIMITED

K M SUGAR MILLS LTD. LUCKNOW

Bibhas Kumar Srivastav
Director
DIN: 06533710
Chairman of the Meeting

Date: 7th August, 2025
Place: Lucknow