EMKAY TOOLS

EMKAY TAPS AND CUTTING TOOLS LTD.

Registered Office & factory Address: B-27 & B-27/1, M.I.D.C. Industrial Area, Hingna Road, Nagpur-440016 (India)
CIN: L29220MH1995PLC091091 www.etctl.com

August 8, 2023

To,

The Deputy Manager - Listing Compliance

National Stock Exchange of India Limited

'Exchange Plaza', C-1, Block G,

Bandra Kurla Complex, Bandra (E),

Mumbai - 400 051

Series: SM

Symbol: EMKAYTOOLS

Kind Attention: Mr. Manish Kishnani

Dear Sir,

Ref.: Your letter ref. no. NSE/LIST/36457 dated July 28, 2023 and our application under Regulation 37 of the SEBI (LODR), Regulations, 2015 for the proposed Scheme of Arrangement between Emkay Taps and Cutting Tools Limited ("Emkay Tools") (CIN:- L29220MH1995PLC091091) (hereinafter referred to as "the Demerged Company"); and Emkay Tools Limited (CIN:- U25939MH2023PLC401627) (hereinafter referred to as "the Resulting Company") and their respective Shareholders and Creditors under Sections 230 to 232 read with Section 66 of the Companies Act, 2013 and other applicable provisions of the Companies Act, 2013 and rules and regulations framed thereunder dated July 11, 2023.

Sub: Requirements for in principle approval to Scheme of Arrangement between Emkay Taps and Cutting Tools Limited and Emkay Tools Limited and their respective shareholder under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013.

This is in furtherance to our application for in-principle approval to Scheme of Arrangement and to obtain the Observation letter ("NOC") for filing the Scheme with the NCLT as approved by the Board of Directors at their Meeting held on June 29, 2023 at the registered office of the Company.

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In this regard as required and requested by your good office, we hereby submit and enclose the detailed justification / clarification from the company in relation to the Scheme of Arrangement.

We request you to kindly take our above submission(s) on record and grant in-principle approval by issuing a no objection letter for the aforementioned Scheme of Arrangement at the earliest possible and allow us to proceed with the filling of the Scheme of Arrangement with the Hon'ble National Company Law Tribunal.

Yours Faithfully,

For **Emkay Taps and Cutting Tools Limited**

S. Sohane

EMKAY TAPS AND CUTTING TOOLS LTD. SEAL

Shruti Sohane

Company Secretary & Compliance Officer

ICSI Membership No. A37324

Place: Nagpur

To,

Manager - Listing Compliance

National Stock Exchange of India Limited

'Exchange Plaza', C-1, Block G,

Bandra Kurla Complex, Bandra (E),

Mumbai - 400 051

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"COMPANY JUSTIFICATION / CLARIFICATION"

Dear Sir,

Sub: Requirements for in principle approval to Scheme of Arrangement between Emkay Taps and Cutting Tools Limited ('the Company' or 'the Demerged Company') and Emkay Tools Limited ('the Resulting Company') and their respective shareholder under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013.

The Company is in receipt of the above mentioned requirement letter from National Stock Exchange Limited ('NSE') dated July 28, 2023, in reference to the application filed under Regulation 37 of the LODR Regulations. In the said requirement letter, the Company has been asked to submit furnish justification for 1:1 share entitlement ratio prescribed under the Scheme.

In connection with the above, the Company submits the justification/clarification as under:

1. Background

1.1. The Company is engaged in the following business activities:

- Manufacturing of high-speed steel cutting tools, threading taps and other machine cutting tools (referred to as 'Manufacturing Business' or 'Demerged Undertaking')
- Production of power through windmills located in Rajasthan and Karnataka ('Windmill Business')

SEAL

The company actively invests it surplus profits in the Non-Current assets in compliance with section 186 of the Companies Act, 2013

1.2. Under the Scheme, the Manufacturing Business of the Company is sought to be demerged into the Resulting Company, which is a wholly owned subsidiary of the Company.

2. Rationale for 1:1 share entitlement ratio

Economic Interest of the shareholders remains unaffected

2.1. As per the proposed Scheme, the Manufacturing Business of the Company will be transferred to the Resulting Company and the Resulting Company will issue equity shares to the shareholders of the Demerged Company in the ratio of 1:1 i.e. 1 (one) equity share of Resulting Company shall be issued for every 1 (one) equity share held in the Demerged Company.

2.2. Further, post demerger, the existing shareholding of the Demerged Company in the Resulting Company shall be cancelled.

2.3. Consequently, the shareholding of the Demerged Company and the Resulting Company, after coming into effect of the Scheme, will be identical i.e. the shareholding in both the companies shall mirror image of each other.

2.4. Therefore, upon the Scheme becoming effective, the business of the Demerged Company and the Resulting Company would continue to be owned by the same shareholders of the Demerged Company in the same proportion as their shareholdings in the Demerged Company. The shareholders of the Resulting Company will be same as that of the Demerged Company and there shall be no other new shareholders other than the existing shareholders of the company. **Thereby the economic interest of the shareholders in the Demerged Company will remain unaffected and it will not be prejudicial to the interest of the shareholders.**

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2.5. The business proposed to be retained by the Demerged Company i.e. Windmill Business and the Non-Current Investment (Assets) generate a steady and consistent stream of income which is directly linked to its capital. Therefore, the management believes that the fair value of the Windmill Business and the Non-Current Investment (Assets) shall be derived considering the book net worth as basis. The book net-worth of these activities as on March 31, 2023 was INR 180 crores, as per the certificate obtained from the statutory auditors dated June 29, 2023. Therefore, the market value of the business proposed to be retained by the Demerged Company can be said to be more than INR 180 crores (say INR 180 to INR 220 crores).

2.6. The total market value / market capitalisation of the Company (computed as INR 383.11 per share based on average of closing price of previous 10 trading sessions) as on the date of approval of the Scheme by the Board of Directors on June 29, 2023 is INR 408.83 crores.

2.7. Considering the above, the management believes that the market value of the business proposed to be retained by the Demerged Company accounts for 45% to 50% of the total present market value of the Company.

2.8. Therefore, the balance market value of 50% to 55% can be said to be attributable to the Manufacturing Business proposed to be demerged into the Resulting Company.

2.9. This is further substantiated by the fact that post demerger, the Resulting Company shall belong to manufacturing industry which is highly dependent on Automobile and Auto component sector, along with subtle dependence on Indian Engineering and Capital Goods sector and Aerospace and Defence (A&D) sector. The Indian auto industry is expected to record strong growth in F.Y. 2023-24, post recovering from the effects of the COVID-19 pandemic. Automotive Mission Plan 2016-26 is a mutual initiative by the Government of India and the Indian automotive industry to lay down the roadmap for the development of the industry. The Government aims to develop India as a global manufacturing centre. Thus, the future seems to be bright and conducive for the Manufacturing industry in the years to come.

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2.10. Therefore, the management is of the view that the share entitlement ratio of 1:1 fairly represents the indicative market value of both the undertakings after considering the earning and growth potential of respective businesses.

2.11. Considering the above split of value between the undertakings, the management believes that the share entitlement ratio of 1:1 is fairly representative of the value of Manufacturing Business sought to be demerged.

Other key factors

2.12. Apart from the above, the Management believes that the share entitlement ratio of 1:1 will also achieve the following objectives:

- The share entitlement ratio of 1:1 will not result in fractional entitlements which otherwise may result in non-allotment of shares to the small shareholders.

- The share entitlement ratio of 1:1 is easily comprehensible to all the shareholders to understand the split of value after the Scheme coming into effect.

- It helps to maintain the same float of shares of both the companies after the Scheme coming into effect.

2.13. Pursuant to above, the Company submits that the share entitlement ratio of 1:1 is fair in light of the present facts of the case.

Past precedents

2.14. The Company further submits that it is a standard practice in case of demerger of an undertaking of the Company into its wholly owned subsidiary, wherein the share entitlement ratio of 1:1 has been accepted by Securities and Exchange Board of India ('SEBI') and NSE. Some of the recent precedents are listed below for your ready reference:

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- Demerger of Traditional Textile Proceeding Division and Trading Textile Division from Mahalaxmi Rubtech Limited respectively into its wholly owned subsidiaries i.e. Mahalaxmi Fabric Mills Private Limited and Globale Tessile Private Limited, with 1:1 as the share entitlement ratio – Observation letter issued by NSE on August 1, 2023;

- Demerger of Financial Services business from Reliance Industries Limited into its wholly owned subsidiary i.e. Reliance Strategic Investments Limited, with 1:1 as the share entitlement ratio – Observation letter issued by NSE on February 28, 2023.

2.15. The Company also submits that it has obtained a report from a Registered Valuer and also from a SEBI registered Merchant Banker in respect of the proposed share entitlement ratio, who have certified that the share entitlement ratio is fair and reasonable.

2.16. Furthermore, the Company also submits that it is in compliance with all the relevant laws / regulations in respect of the demerger process.

We hope our submission meets the requirements of your good office. We shall be glad to provide any further information, if the same is required by your good office.

Further, we request you to kindly issue a no objection letter for the said Scheme of Arrangement at the earliest possible so as to enable the Company to file the Scheme of Arrangement with the National Company Law Tribunal.

Yours Faithfully,

For **Emkay Taps and Cutting Tools Limited**

EMKAY TAPS AND CUTTING TOOLS LTD. SEAL

Ajayprakash Kanoria

Chairman, Managing Director & CEO

DIN: 00041279

Place : Nagpur

Date : August 08, 2023