

FREQUENTLY ASKED QUESTIONS (FAQ) on the Scheme of Arrangement
AMONGST
DEEPAK FERTILISERS AND PETRACO CHEMICALS CORPORATION LIMITED
AND
SCM FERTICHEM LIMITED
AND SMARTCHEM TECHNOLOGIES LIMITED
AND
THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

1. Briefly Explain the Scheme, basis of valuation etc.

Presently the company is engaged in following main businesses:

- i. Industrial chemicals
- ii. Fertilisers
- iii. Technical Grade Ammonium Nitrate (TAN)
- iv. Value Added Real Estate

Additionally, the company runs captive and commercial power generating plants based on gas and wind mills. Smartchem Technologies Ltd. (STL), a wholly owned subsidiary, is also engaged in TAN manufacturing at Srikakulam.

The restructuring exercise aims at transfer of Fertilisers and TAN undertakings to STL. Upon completion of restructuring, the business undertakings will be housed as given in the table below:

DFPCL	STL (100% subsidiary of DFPCL)
(a) Industrial Chemical	(d) Fertilisers
(b) Value-added Real Estate	(e) Technical Grade Ammonium Nitrate (TAN)
(c) Power generation	

The restructuring exercise involves the following two steps:

1. Step 1- Slump exchange of TAN and Fertiliser businesses to SCM Fertichem Ltd. , 100% subsidiary
2. Step 2- Demerger of TAN and Fertiliser business from SCM Fertichem Ltd. To STL.

2. Salient business rationale and implication on shareholder interest?

Company's business has been steadily growing across its business verticals i.e. Industrial Chemicals, Fertilisers and TAN, etc. over the last several years. With each of business verticals reaching meaningful size, and given the complexity of corporate structure with future prospects of each business vertical, it is now prudent to carve out these growing

businesses to an independent corporate entity for further pursuing future plans of growth. The envisaged scheme does not bring any change in the respective share-holding of any shareholder held in DFPCL.

The scheme inter-alia is intended to provide beneficial features for all the stakeholders as follows: -

- a. The shareholders would be able to assess detailed financial performance of each of business vertical as an independent business as against the present combined financial performance in a conglomerate scenario
- b. The Company will be able to improve in prioritisation of capital allocation commensurate with the potential and performance of each business vertical, based on own merits of risk and return.
- c. Opening up possibilities of tying up with sector specific global players which can potentially translate reduction of risk and accelerating pace of growth
- d. Greater internal management focus for shoring up performance of each business vertical being held accountable as a standalone entity
- e. The consolidation of 100% subsidiary with the holding company will effectively result into consolidated outcome identical to current structure without any material difference to the shareholders of DFPCL

3. Why is the value of the demerged businesses (TAN + Fertiliser) in Step 2 higher than the value of the transferred businesses (TAN + Fertiliser) in Step 1?

In line with the high governance standards followed by the Company consistently over years, this transaction structure has also been advised M/s. Desai Haribhakti & Co., and vetted by expert agencies like M/s. Sharp & Tannan & M/s. J M Financial Institutional Securities Limited and incorporates multiple factors like flexibility for business operations, compliance with corporate regulations and enabling future plans of growth etc. , Some of the salient features considered in devising the two-step structure are with the above objectives and are outlined in following paragraphs.

While in the step 1 the TAN and Fertiliser businesses are being transferred as slump exchange at book value, in step 2 the same is demerged and transferred at fair value of the businesses. The book value being historical cost does not reflect the fair value of business undertaking which is significantly higher when valued for re-arrangement as proposed in the Scheme.

In the second step, the business is being transferred on fair valuation in accordance with the prudent principles being followed universally i.e. weighted average of value arrived through i) discounted cash flow method and ii) earning multiple method.

The fairness opinion expressed by the expert agencies on the fair valuation and share exchange ratio is attached in the Scheme Document (reference Page 49 of Para 31.3. *[A copy of fairness opinion report and the rationale therein is available with the Company Secretary of DFPCL and can be obtained by writing an email to Mr. mandar.velankar@dfpcl.com]*)

4. Please explain correlation between consideration for Demerger and current market capitalization of DFPCL, if any.

The market capitalization of DFPCL and consideration for demerger have no inter-se relationship. The consideration for demerger reflects the intrinsic fair value of the businesses being transferred to the 100% subsidiary whereas the market capitalization of the Company is an outcome of the activities of stock market. The demerger consideration may be a possible indicator of inherent value in the business verticals of the Company, which may start reflecting upon the business verticals performing to their true underlying potential over time after completion of restructuring.

5. Is there any impact on the Shareholding of respective shareholders?

There is no change in the individual shareholding of respective shareholders since business is spun off to wholly owned subsidiary and the demerged entities' shares to be allotted to the holding company i.e. DFPCL.

Illustratively, a shareholder holding 100 shares or 1% stake in DFPCL will continue to hold 100 shares or 1% stake in DFPCL whereas DFPCL, through itself and its wholly owned subsidiary will continue to own all the business verticals as at present.

6. Please provide your views on the impact of holding company structure on the shareholders' value?

As against the current structure of DFPCL where all the business verticals are housed in one company, we believe the true potential on earnings and value of each business vertical is likely to be reflected and realised more effectively after the restructuring. Restructured set up will help paving the way for creation and expansion of value for shareholders over a period of time and support improvement in value creation.

7. Please explain impact of the restructuring on the consolidated cash-flow?

The reflection of assets belonging to demerged businesses at higher fair market value in the accounts of STL will consequently reflect in corresponding non-cash depreciation / amortisations as well as in higher post-tax cash earnings on a like-to-like basis. However, the restructuring is expected to be neutral to the current robust

cash generation from demerged businesses, which will continue to be based on high levels of efficiency in the business verticals.

Management is hopeful that better efficiency of operations and outlook for new growth opportunities will more than compensate the increase in non-cash depreciation /amortisation cost.

8. Please explain the impact of restructuring on availability of information on operations and financial performance of the demerged businesses i.e. TAN and Fertiliser as these will be in unlisted subsidiary as against in listed DFPCL currently?

After completion of restructuring, DFPCL will be required to publish consolidated quarterly results in compliance with the currently applicable accounting standards i.e. Ind-AS and Listing Agreement. *In addition, DFPCL is committed to provide operational and financial details on the key businesses in its wholly owned subsidiary through investor/ analyst presentations to be uploaded on its website and shared with stock exchanges.*

9. Are there any strategic considerations and strategic rationale behind the restructuring?

While there is nothing to share presently, but over the last few years, company has been approached by key global players. The readiness of such structure will not only enhance our attractiveness for such strategic tie ups but will also allow speedy execution.

10. What are the plans of listing subsidiary company?

The management will examine the listing of subsidiary company at an appropriate time keeping the interest of shareholders in mind in alignment with the strategic initiatives in pipeline.

11. Does the Scheme of Restructuring favour any specific class of Shareholders, including promoters?

As there is no change/ dilution/ increase in ownership of DFPCL for any shareholder, the Scheme is neutral to all classes of shareholders, majority/ minority, promoters/ non-promoters, institutional/ retail, etc.