

CG POWER AND INDUSTRIAL SOLUTIONS LTD

A Change of Guard

(This report is a part of a series of detailed examinations into corporate governance issues at listed companies. A few recent reports under this series published by InGovern were on Fortis Healthcare Limited and Sterling and Wilson Solar Limited. The Fortis report can be accessed [here](#) and the Solar and Wilson Solar report can be accessed [here](#). Our first detailed report on CG Power was in [February 2020](#). Other corporate governance related research reports and articles are available at www.ingovern.com)

In our first detailed report on CG Power in [February 2020](#) noted:

A board room battle and a battle for control of the company has meant that minority shareholders at CG Power are wondering what are the events that lead to the current state of affairs where there has been large destruction of shareholder wealth. The roles of various stakeholders - the Board, key management personnel, internal auditors, bankers to the company, lenders to holding company, statutory auditors, promoters and other group companies - needs to be examined.

Since our report in February 2020, the company is undergoing a transition and an imminent change in promoter and new shareholder with majority control. In the past few months, the independent Forensic Audit Report, commissioned by BSE, which was submitted to SEBI in March 2020 and the observations made by the NCLT, confirm that all stakeholders - the Board, Directors, KMP, Banks, NBFCs - had full knowledge of the transactions with promoter group entities. The default on the loans availed by the holding company of the erstwhile promoters triggered these series of events that led to change in control of management, changes in the constitution of board, acquisition of shares by KKR, YES Bank and others.

The ensuing AGM of the Company on October 19, 2020 is an appropriate moment for minority shareholders to review and reflect on the events that have transpired over the past 5 years and evaluate what the future holds for the company under the incoming new promoter, who will need to steady the ship and nurture an iconic brand, which has been a household name and industrial franchise in India since its incorporation in 1937.

October 2020

InGovern Research
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Previous Reports and Context

In our report of [February 2020](#), we had looked at the fiasco at CG Power from multiple angles.

A board room battle and a battle for control of the company has meant that minority shareholders at CG Power are wondering what are the events that lead to the current state of affairs where there has been large destruction of shareholder wealth. The roles of various stakeholders - the Board, key management personnel, internal auditors, bankers to the company, lenders to holding company, statutory auditors, promoters and other group companies - needs to be examined.

The main sections in our report of February 2020 are:

1. How it Unfolded: Chronology of Events (*till 31st December 2019*)
2. Investors become Aware of Issues in the Company
3. Statutory Auditors – Long tenures and high non-audit fees
4. Directors and Board Composition
5. Board - Potential Conflict of Interests
6. A “KKR angle” in this battle for Boardroom and Management Control?
7. Were the funds routed to BILT to pay off its debts?
8. Questions Galore
9. Conclusion

Annexure 1: Summary of the Vaish Investigation Report

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Annexure 3: Past & Present Directorships of Individuals mentioned in the SEBI Order

Annexure 4: Change in Key Management Personnel (KMP)

Annexure 5: Ownership Changes – From December 31, 2018 till date

1. Developments since January 2020

Date	Event / Action	Initiated by
24 Jan 2020	Nimesh S. Shah resigns as Company Secretary and Compliance Officer.	Self
24 Jan 2020	Ravi Rajagopal designated as Compliance Officer	Board
24 Jan 2020	Rathin Roy and Aditi Raja appointed as Independent Directors	Board
24 Jan 2020	Company comes across unexplained payments to KK Mankeshwar & Co, (KKM) one of the Joint Statutory Auditors and issues show cause notice. KKM does not reply back. Board determines KKM to not be independent and decides to seek approval of Central Govt for removal of KKM as auditor	Board
25 Jan 2020	KKM submits resignation as auditor. Company seeks clarification from MCA on treating the resignation of KKM as auditor as their vacation of office	Board
7 Feb 2020	A Commercial Court in Belgium declares Company's overseas subsidiaries CG Holdings Belgium NV and CG Power Systems Belgium NV as bankrupt and directs receivers to draw up the inventory of the assets of these subsidiaries	Belgian Court
5 Mar 2020	NCLT allows reopening of books of accounts of the Company for the past 5 years till March 31, 2019 on application filed by MCA. NCLT asked the Government and investigative agencies to rely upon their own investigations and not the report issued by Vaish Associates, which was commissioned by the management of CG Power.	NCLT
11 Mar 2020	SEBI Confirmatory Order (WTM/GM/CFD/78/2019-20): <ul style="list-style-type: none"> restraining Gautam Thapar and others from accessing the securities market till further orders - this was already in the Interim Order. allowing the previous promoter to liquidate upto 25% of the value of the securities held by them. company to take all necessary steps to recover the amounts due to the Company, which were extended, either directly 	SEBI

Date	Event / Action	Initiated by
	<p>or indirectly.</p> <ul style="list-style-type: none"> SEBI also mentions investigation into role of KKR and Narayan Seshadri for their alleged involvement in market manipulation and insider trading, based on material made available to them by the Noticees. 	
16 Mar 2020	Alen Ferns appointed as Company Secretary and Compliance Officer	Board
25 Mar 2020	Company temporarily shuts down all factories in India due to COVID-19 lockdown	Company
7 Aug 2020	Board approves the execution of a securities subscription agreement with Tube Investments of India Limited for issue of 64.25 Crore equity shares at Rs. 8.56 per share totalling Rs. 550 Crores and 17.52 Crore warrants for Rs. 150 Crore	Board
7 Aug 2020	Company calls for an EGM on 2 September 2020 for approval of shareholders for issue of securities to Tube Investments of India Ltd, which will result in Tube Investments of India Ltd owning 58.58% on a fully diluted basis	Board
2 Sep 2020	Shareholders approve the preferential allotment of securities to Tube Investments of India Ltd (99% votes in favour)	Company
16 Sep 2020	Board makes an application to stock exchanges for reclassification of existing promoters as public shareholders and the same is carried out by the Stock Exchanges	Board
21 Sep 2020	Company calls for AGM on 19 October 2020	Board

2. Questions raised by InGovern in February 2020

1. Role of Auditors (Statutory Auditor and Internal Auditor):

- Why were the Internal Auditors and the Statutory Auditors not able to red flag any of these transactions?
- Why were the contentious transactions not detected by the auditors of CG Power who were engaged before FY 2019, as well as the auditors of the concerned subsidiaries, where these transactions took place?
- Should these auditors be held accountable too?
- How could the internal auditors not detect these contentious transactions?
- The independent Forensic Audit Report states that many transactions (e.g., USD 40 Million loan by IndusInd Bank to CZ Middle East FZE, Euro 44 Million term loan by Standard Chartered to CG Singapore, etc.) were done without either Board approval or knowledge. Why did the internal auditors not intimate the Boards of the subsidiaries as well as the Risk Management and Audit Committee of CG Power about the transactions with other entities? Or was the Board aware of these transactions and knowingly went through with these?

2. Role of Banks and NBFCs/ Lenders:

- What role did lenders to the holding company play in accelerating the downfall? Is it that the pressure that may have been brought by KKR on Avantha Holding for recovery of its loans could have led to the downfall?
- Were the Banks and NBFCs in the know of the debt situation in the company and other stressed group companies and yet continued to lend, thus perpetrating a downfall.
- Should Banks/ NBFCs not consider the debt-exposure of the entire Group while extending loans to a single entity of that Group? Many a times it has been seen that a comparatively financially healthy entity of the Group takes on debt just to clear out the debt of a debt-ridden fellow subsidiary or a promoter-controlled entity. In such cases, shouldn't lenders ensure that the purpose for which the loans are availed by a company are altered and not diverted for clearing debt of other group companies?
- The same question needs to be asked when a healthy entity provides guarantee for loans by other group companies.
- Did the Banks who gave loans to subsidiaries that were transferred to promoter-controlled entities, and did not ask for documents to verify Board approvals for the same?
- Similarly, did the Banks which extended funds on basis of CG Power guarantees to Group companies/ promoter-controlled entities not ask for Board approvals for the same? Ex: CG Middle East FZE, a wholly owned subsidiary of CG Power, availed USD 40 Million a

term loan borrowing from IndusInd Bank and the amount was ultimately transferred to Solaris Industrial Chemicals Ltd, without the knowledge of Board of CG Power.

- Why did banks and NBFCs give loans to new entities that had no track record?

3. Role of Independent Directors and KMP:

- Should reason such as 'the Board was not aware' or the 'Board was not intimated' of these transactions be enough to not hold them accountable? Surely, the Board would have approved these transactions and the Board minutes should reflect these transactions. If there were approved by the Board, were these shared with SEBI and the other investigating agencies?
- Should a simple resignation from the Board exonerate such directors of their responsibilities?
- Is it not the collective failure of the Board in not being able to protect the interests of the Company? Shouldn't the entire Board be replaced in such cases?
- While the Board followed the letter of law in appointing Mr. Narayan Seshadri as an Independent Director, is he really independent 'in spirit' due to his close business interests with a major lender and a significant shareholder – KKR India?
- Was the Board not aware of this business relationship between Mr. Seshadri and KKR India and its senior management? If yes, did the Board then act in a true and fair manner in appointing him as an independent director and not as a nominee director?
- What is the accountability of the MD and CEO, Mr. Neelkant? Why didn't he and his other CXOs keep the Board apprised of all transactions?
- What is the role of the Audit Committee? Why did the Operations Committee take decisions that were in the purview of the Audit Committee?

4. Role of the Promoter:

- Should promoters, who pledge shares with lenders and NBFCs to avail funding through their promoter owned companies, disclose details of the loans along with the names of lenders and purpose for which the funding was availed? In the Indian context, sudden unplanned and unannounced decrease in promoter shareholding is treated unfavourably by the market, and as such disclosures and transparency would go a long way in raising awareness amongst shareholders and prepare them for any unwanted eventualities. In the case of CG Power, no disclosures regarding the names of ultimate lenders with whom shares were pledged, and also the purposes for which funds were availed by the promoter, were made.

5. Various Investigation Reports:

- Can the report by Vaish Associates be considered independent when Vaish Associates was appointed by the company? While SEBI based its order considered the findings in the report by Vaish Associates, the NCLT was dismissive of the Vaish report and questioned the independence of the Vaish report.
- When would the findings of the BSE appointed independent investigation by MSA Probe Consulting Private Limited be made available to all stakeholders?
- Clarifications would be useful to demystify the mandate and terms of reference of Justice (Retd.) Mr. TS Thakur, when MSA Probe Consulting Private Limited was already appointed by BSE with a specific mandate? How are the terms of reference different?
- When would the restated financial results be made available to investors?

3. Forensic Audit

On August 19, 2019, the company made a disclosure to the stock exchange on the findings of the preliminary investigation report by Vaish Associates. However, the disclosure does not contain all vital information, like Board approvals that have been subsequently revealed by the independent Forensic Audit report. On 17th September 2019, SEBI had asked the BSE to commission a forensic audit, post which, on 10th October 2019, BSE instituted a forensic audit to be conducted by M/s. MSA Probe Consulting Private Limited. The Forensic Audit report by MSA Probe dated 18th March 2020 was submitted to SEBI and has been received by the company on 4th September 2020. The forensic audit covered the financial years FY2015 to 2020.

The scope of the forensic audit included investigations into:

- a. Manipulation of Books of Accounts;
- b. Misrepresentation including financials and/or business operations;
- c. Wrongful diversions/siphoning of company funds; and
- d. Any other related matters.

The forensic audit brings to fore responses to many questions raised by InGovern, including role of directors, promoters, KMP, NBFC, banks and auditors. The forensic audit covers many transactions as listed below:

1. Aditya Birla Finance Limited - Advance received by CG Power subsidiary Acton against sale of land at Nashik and Kanjurmarg;
2. Approval of loan by Aditya Birla Finance Limited to Blue Garden;
3. Issue of Post-Dated Cheques for Rs.210 crore by CG Power to Yes Bank against loan given to Avantha Holdings Limited;
4. Euro 44 Million Borrowing by CG Singapore from Standard Chartered Bank;
5. USD 40 Million Foreign Currency Term Loan to CG Middle East from IndusInd Bank India and Guaranteed by a Corporate Guarantee from CG IBV;
6. Outstanding advances to vendors of CG Singapore;
7. Outstanding advances to vendors of CG Middle East;
8. Rs. 108 cr Trade Receivable Transactions; and
9. Rs.229 Cr Deposit taken from AHL through FDs created at IndusInd Bank.

Some highlights of the forensic audit report are:

- In most of the transactions with promoter entities, lenders to CG Power and the board of CG Power were aware and fully informed about such transactions.
- Auditors and company officials, including the legal head and former managing director and chief executive as well as former board members were aware of the transactions.

- Aditya Birla Finance Limited (an NBFC) and three private banks were aware of funds being used by CG Power to channelise through related-party transactions back to repay loans due to themselves.
- Blue Garden and Acton Global (both entities related to the promoter) were created under the mutually agreed transaction structure with the NBFC and their sole purpose as special purpose vehicles (SPV) was to give effect to the loan transaction. Aditya Birla Financial Ltd itself proposed the specific structure for the loan, which CG Power adhered to and implemented.
- YES Bank issued a long-term loan facility of Rs. 500 crore to Avantha Holdings Ltd (AHL), a promoter entity of CG Power. Post-dated cheques were issued for and on behalf of CG Power to the bank towards the loan of Rs. 500 crore commencing from May 2016. There was regular replacement after every three months with fresh cheques.
- The audit has also raised concerns on the conduct of the company's statutory auditor, which turned a blind eye to instances of gross violations. The firm K.K. Mankeshwar & Co. was provider of multiple services to Avantha and CG Power Group entities during F.Y. 2016-17 and F.Y. 2017-18.
- The 'structure of the transactions' was proposed and approved by banks and lenders to CG Power, and the company moved funds to pay group company loans.
- The Board of CG Power "*concluded there is a very high chance that CG Power was facing a threat of freeze in its credit facilities if there was a default by Avantha Group entities. Thus, to save its own credit limits from being frozen, the board of CG Power not only regularised the already given loan of Rs. 530 crore to Avantha Group entities but also gave approval for additional lending of up to Rs. 1,000 crore.*"
- The auditor has recommended a detailed investigation against the erstwhile auditors. KK Mankeshwar & Co, for selective disclosures in the audit against Thapar and others. The role of IndusInd Bank in a loan transaction with CG Power has also been questioned over 'unusual disbursal'.

The forensic audit investigation report overall uncovers that all transactions with promoter entities, including Avantha Holdings Limited, were done with knowledge of the Board, most directors including some independent directors, key management personnel, including the legal head and former managing director and chief executive. Some of these transactions were undertaken to repay loans from banks by the holding company and other promoter group companies.

The Forensic Audit Report clearly states that the funds were utilized by the promoter group companies to clear obligations that would otherwise have had a negative impact on CG Power's



credit rating itself, as the Board of CG Power was concerned about the impact of the credit rating it would have had on the banking facilities availed by CG Power.

The findings in the Forensic Audit Report are at divergence with the report by Vaish Associates, which did not delve on the evidences of the past four years. The forensic audit report clearly substantiates with email and paper evidences like Board minutes, correspondence by KMP with Board members and/or banks and NBFCs that all transactions were approved by the Board, in some cases explicitly structured by the same banks or NBFCs. Funds were moved to promoter group entities and onwards to banks for clearing their overdues. The Board and independent directors need to be questioned on why they withheld all evidence and information from Vaish Associates that resulted in the first disclosure to stock exchange on August 19, 2019.

Many of the apprehensions of the NCLT bench and the questions we asked in February 2020 are answered by the Forensic Audit Report.

4. Value Creation and Destruction

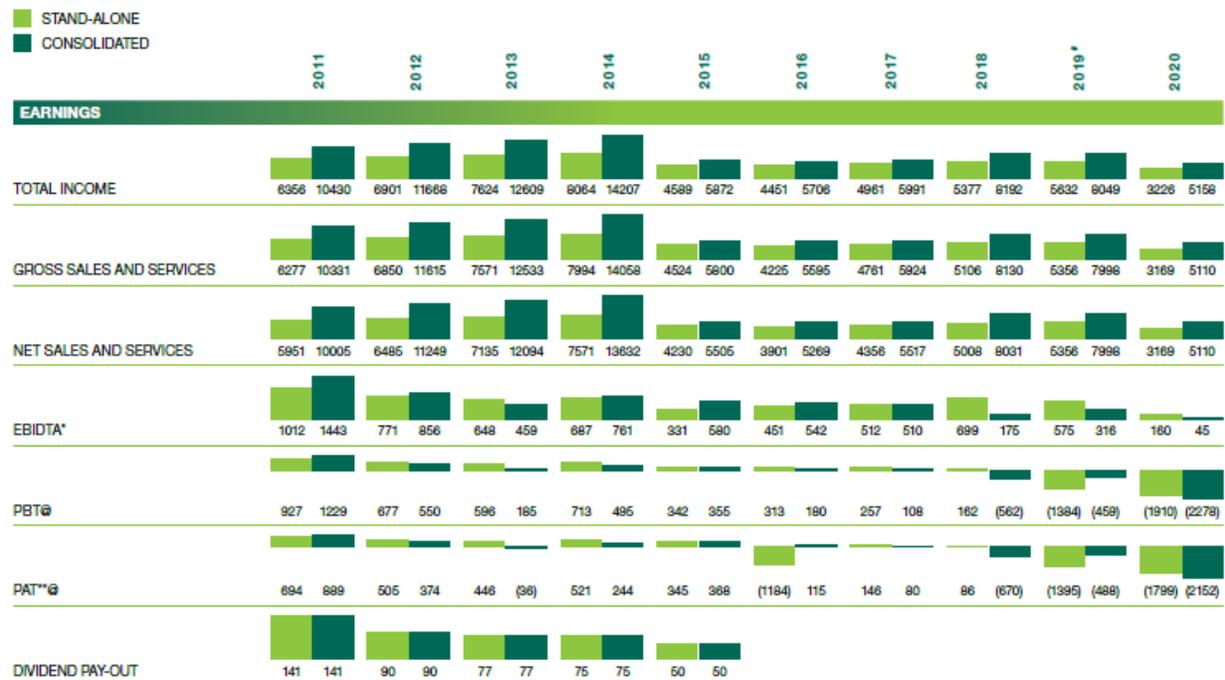
The value of CG Power as seen through the lens of a minority shareholder over the past 10 years would have distinct phases of:

- Value accretion till FY2015-16;
- Separation and sale of CG Consumer to Advent International;
- Involvement of KKR in FY2018-19 and FY19-20;
- Exit of KKR; and
- Induction of new investor and imminent promoter, Tube Investments.

Any shareholder who invested 10 years ago would have seen the following:

- Networth of the company increase till FY2016; and
- Stock price increase till 2016.

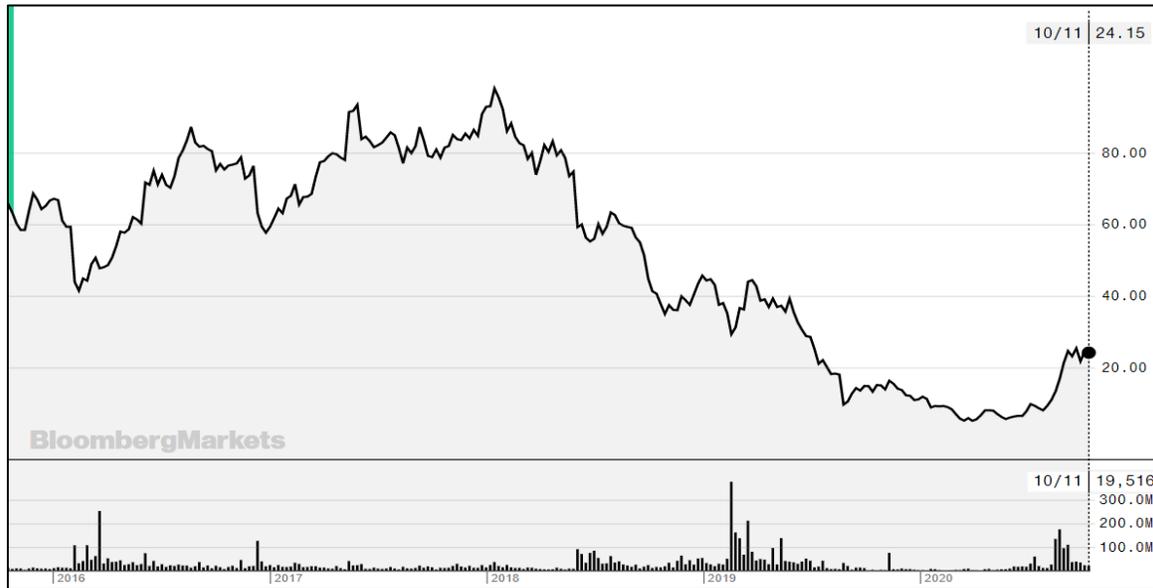
There was a perceptible increase in revenues and EBITDA till 2014, and dividends were paid till 2015. This growth and value creation happened when it was still a part of the Avantha Group with peak market capitalisation crossing over Rs.15,000 crores.





Source: CG Power Annual Report

Stock price chart for past 5 years from 2016



Source: Bloomberg Markets

The impact of the other businesses of Avantha group in subsequent years lead to the promoters opting to separate CG Consumer and sell their shareholding of CG Consumer to Advent International.

Unlocking the Franchise of Crompton Greaves by Demerger of Crompton Greaves Consumer Electricals Limited

As per filings made by the Company in the year FY2015-16 regarding the transaction:

- Advent International and Avantha Holdings Limited, the promoter of Crompton Greaves Limited, signed a share purchase agreement, whereby Advent acquired 34.37% of CG's consumer products business into a separate company, Crompton Greaves Consumer Electricals Limited ("CGCEL").
- Temasek was an independent co-investor alongside Advent in CGCEL.
- CGCEL was demerged from CG into a standalone company and separately listed.
- Advent and Temasek acquired ownership in CGCEL by purchasing shares in CGCEL from Avantha Holdings, following the demerger of the consumer products business from CG and the listing of CGCEL on the BSE and NSE.
- As sale consideration, all of CG's shareholders received mirror shares of CGCEL in the ratio of 1:1, such that the shareholding of CGCEL upon completion of the demerger mirrored the shareholding of CG.
- The transaction valued CGCEL at an enterprise value of Rs. 6600 crores.

Debt Restructuring

The company pursued a comprehensive debt restructuring:

- The Lenders of the Company have formed a joint lenders' forum.
- State Bank of India ("SBI") is acting as the Lead Bank for the debt restructuring process.
- On 11th August 2020, all lenders have entered into an inter-creditor agreement in accordance with the Reserve Bank of India's ("RBI") Prudential Framework for Resolution of Stressed Assets (RBI/2018-19/203 DBR.No.BP.BC.45/21.04.048/2018-19) dated 7 June 2019.
- SBI Capital Markets Limited has been appointed by the Lenders as process advisors for the Resolution Process.
- The company has invited interest for resolution plans.

5. Changes in Shareholdings in past year: Entry and Exit of KKR

Value Destruction precipitated by KKR

As per various reports, the private equity firm KKR India may have had a role in the unfolding of events at CGPOWER. KKR India had a debt exposure to the holding company Avantha Holdings, which the latter was unable to repay in full. This could be the reason for souring of relations between KKR India and the promoter of CG Power, Gautam Thapar. It seems that upon request by Avantha Holdings to convert the debt into equity, KKR India asked for appointment of Mr. Narayan Seshadri initially as a consultant but later as an Independent Director. Mr. Seshadri has close business interests with KKR India, including a partnership firm in which the senior management of KKR is an interested party. Soon thereafter, an “Operations Committee” was set up with Mr. Seshadri, Mr. Mathur and Mr. Neelkant as members and the Operations Committee hired Vaish Associates to investigate certain transactions. As per media reports, Mr. Thapar also alleged that the events at CGPOWER have been orchestrated by the lenders such as, KKR India to oust the erstwhile promoters and take control of the company.

The sequence of events are as follows:

1. Avantha Holdings had availed loans from KKR India.
2. It was unable to repay part of the loan and sought an additional loan from KKR India in around 2017.
3. In 2018, Mr. Thapar approached KKR India to either roll over the outstanding debt or convert it into equity.
4. KKR India asked for appointment of Mr. Seshadri as a consultant to the company.
5. Later, KKR India changed its demands and asked for appointment of Mr. Seshadri as an Independent Director.
6. After the appointment of Mr. Seshadri to the Board, an “Operations Committee” was constituted, which hired Vaish Associates to investigate certain transactions in the company.
7. Vaish Associates, commissioned by the company, came out with its investigation report which showed many contentious transactions.
8. SEBI, acting on this report, barred Gautam Thapar and other erstwhile senior management personnel of the company from accessing the securities markets.
9. The Board removed Mr. Gautam Thapar as its Chairman.
10. KKR India becomes a shareholder of CGPOWER holding 10% of its equity stake after invocation of the shares pledged by the promoters.

List of Debenture Holders of Avantha Holdings Pvt Ltd as of 31st March 2018:

Unlisted Zero Coupon Principal Protected Non Convertible Debentures – Secured

Sr. No.	Name of the Debentureholders	No. of Debentures of Rs. 10,00,000/-	% holding
1.	BOI AXA Corporate Credit Spectrum Fund	150	4.76
2.	L & T Finance Limited	1,150	36.51
3	L & T Fincorp Limited	700	22.22
4	Family Credit Limited	400	12.70
5	KKR India Debt Opportunities Fund II	400	12.70
6	KKR India Financial Services Private Limited	350	11.11
	Total	3150	100

Source: MCA

Secured Redeemable Non-Convertible Debentures

Sr. No.	Name of the Debentureholders	No. of Debentures of Rs. 100,00,000/-	% holding
1.	Edelweiss Commodities Services Limited	270	100

Source: MCA

Shareholding Pattern as on September 30, 2019

Sl	Name	Shares	%
	<i>Promoters</i>		
1	Avantha Holdings Ltd	0	-
2	Varun Prakashan Ltd	5,022	-
3	Avantha Realty Ltd	3,552	-
	<i>Public</i>		
1	Yes Bank Ltd	8,03,41,466	12.83
2	Vistra ITCL (India) Limited	6,82,04,804	10.89
3	KKR India	6,26,74,609	10.00
4	HDFC Mutual Fund	5,74,51,000	9.18
5	Aditya Birla Sun Life Mutual Fund	5,55,60,974	8.87
6	Bharti (SBM) Holdings Private Limited	5,19,69,354	8.30

7	Franklin Templeton Mutual Fund	2,20,00,000	3.51
8	Life Insurance Corporation of India	1,41,02,571	2.25
9	IDFC Mutual Fund	96,00,000	1.53
10	Vanguard Mutual Fund	67,83,725	1.08
11	Dimensional Emerging Markets Value Fund	65,51,592	1.05

Changes in ownership since September 30, 2019

- On November 4, 2019 Vistra ITCL (India) Ltd sold 6.26 Crore shares, comprising 9.99% equity capital, bringing down its stake from 10.89% to 0.90%
- These shares were bought by L&T Finance Ltd which acquired a stake of 9.99% on CG Power

Exit of KKR, Banks and NBFC: Block Deals after June 30, 2020

Sl	Name	Date	Type	Number	%	Pre %	Post %
1	Yes Bank Limited	07-Jul-20	Sell	1,66,50,000	2.66%	12.77%	10.12%
2	KKR India Financial Services Private Limited	14-Aug-20	Sell	3,61,26,000	5.76%	8.10%	2.33%
3	KKR India Debt Opportunities Fund	14-Aug-20	Sell	84,74,000	1.35%	1.90%	0.55%
4	L&T Finance Limited	17-Aug-20	Sell	6,26,00,000	9.99%	9.99%	0.00%
5	Blue Daimond Properties Pvt Ltd (Enam Holdings)	17-Aug-20	Buy	4,12,93,778	6.60%	0.00%	6.60%
6	Yes Bank Limited	18-Aug-20	Sell	6,34,00,000	10.12%	10.12%	0.00%
7	Enam Holdings Private Limited	18-Aug-20	Buy	2,40,00,000	3.83%	6.60%	10.43%

As can be seen from above tables KKR has pared its shareholding over a period of time. YES Bank and L&T Finance Limited have also sold their shareholding. During the investigations by SEBI, SFIO and restatement of accounts, KKR was exiting its holdings in the company. So, it is not clear as to why KKR, which triggered in 2019 the entire change of Board and ouster of Mr Gautam Thapar and some key management personnel and converted its debt in the holding company to equity of CG Power, is exiting even before the new imminent promoter steps-in. Is KKR selling out its holdings as SEBI, in the confirmatory order, has mentioned about complaints and investigation into the role of KKR and Narayan Seshadri for their alleged involvement in market manipulation and insider trading, based on material made available to them by the Noticees?

This has been a period of disruption for the company and eroded value for the shareholders.

6. Future for Company and Minority Shareholders

Tube Investments as New and Imminent Promoter

The Company had received an offer dated 7 August 2020 (as modified on 11 August 2020) from Tube Investments of India Limited (TIIL) for resolving the debt of the Company and to infuse capital in the Company by subscribing to equity shares worth Rs. 550 crores and warrants worth Rs. 150 crores on a preferential basis. The offer was to subscribe to:

- 642,523,365 equity shares at Rs. 8.56 per share aggregating to Rs. 550 Crore
- 175,233,645 warrants to be exercised within 18 months. Total consideration was Rs. 150 Crore of which upfront payment will be 25%, i.e., Rs. 37.50 Crore

The approval for this investment was sought and received through an EGM on September 2, 2020.

Subsequently, TIIL made a follow-up offer to infuse additional capital through issue of additional shares worth Rs. 100 Crore. This subsequent offer was to subscribe to an additional 68,728,522 equity shares at Rs. 14.55 per share aggregating to Rs. 100 Crore.

The approval for this investment was sought and received through an EGM on September 24, 2020. After these investments, TIIL will hold 58.58% equity shares of the Company and will be reclassified as the Promoter of the Company.

Given the stated objective of the company to monetize its non-core assets, land and properties of the company, and the debt restructuring where lenders may take a haircut, it is likely that TIIL has got a very good deal.

Change in Directors

Sl.	Name of the Director	Classification	Appointment Date	Tenure (in months)
1	Ashish Kumar Guha	Independent Director, Chairperson	09-Nov-17	32
2	Sudhir Mathur	Executive Director	01-Oct-18	
3	Jitender Balakrishnan	Independent Director	02-May-17	38
4	Ramni Nirula	Independent Director	06-Apr-16	51
5	Narayan K Seshadri	Independent Director	08-Mar-19	16
6	Pradeep Mathur	Independent Director	30-Dec-19	6
7	Aditi Raja	Independent Director	24-Jan-20	5
8	Rathin Roy	Independent Director	24-Jan-20	5

5 Directors - Ashish Kumar Guha, Sudhir Mathur, Jitender Balakrishnan, Ramni Nirula and Narayan K Seshadri who were associated with the company and were in the knowledge of the transactions should also be replaced after the new promoters are inducted. This would ensure a complete Board refresh from its past.

Questions left unanswered

- What is the role of KKR in the whole fiasco in the past 1.5 years? Did they pull the plug on a non-serviced promoter loan at a holding company? If they enforced their pledge of the shares, why are they exiting at a lower valuation of Rs.16 odd per share?
- L&T Finance has also enforced pledge of shares by the promoters and again seem to have sold. What was the role of L&T Finance?
- Some shareholders like Bharti have acquired shares at the beginning of 2019. *Did KKR act as persons-acting-in concert (PAC) with other shareholders like Bharti and L&T Finance and then precipitated the board changes?*
- While KKR has said that "As a shareholder, it is in their interest to engage constructively with the company, both through its Board and shareholders, in order to preserve and enhance the value of the company", why are they exiting the company without enhancing the value, when the valuation of the company is very low?*
- Is KKR selling out its holdings as SEBI, in the confirmatory order, has mentioned investigation into the role of KKR and Narayan Seshadri for their alleged involvement in

market manipulation and insider trading, based on material made available to them by the Noticees?

- (f) In March 2019, the Board constituted an ‘Operations Committee’ *“with an aim of value preservation and enhancement in the interest of all stakeholders”*. ***Its members were Narayan K Seshadri, Sudhir Mathur and KN Neelkant. Why was the Operations Committee wound up in September 2019, when the value enhancement had not panned out? What was the role of Mr. Narayan Seshadri and his consulting company Tranzmute, which was responsible for the turnaround and value enhancement? As we pointed out in our February 2020 report, Mr. Seshadri also partnered with Mr. Sanjay Nayar, Managing Director of KKR India and others, to launch ‘Epimoney’, a NBFC. There are concerns whether Mr. Seshadri was truly an Independent Director on Board of CG Power or rather a ‘Nominee Director’ of KKR India. It is also to be noted that, Mr. Sanjay Nayar has been appointed as Partner of Tranzmute since 12th February 2020, and this is one more indication of the close relationship between Mr. Narayan Seshadri, Tranzmute and KKR India.***
- (g) Why were documents, that were subsequently made available to the MSA Probe Forensic Audit team, not made available to Vaish Associates in the first instance?
- (h) How is the company going to recover the amounts from Avantha Holdings Limited or other promoter group entities if the funds have been repaid to banks as uncovered by the Forensic Audit report?
- (i) What is the list of conditions precedent for the incoming investor Tube Investments of India Limited to infuse funds?

7. Conclusion

Since August 19, 2019, when CG Power made the first disclosure of the preliminary investigation report by the company commissioned Vaish Associates up until the current imminent change of promoters, much has transpired in the past one year. The independence of the investigations by Vaish Associates has been questioned by NCLT and the SEBI-directed, BSE-commissioned Forensic Audit Report, clearly adds a different perspective. The NCLT order and the Forensic Audit Report clearly put the onus on various stakeholders including the Board, KMP, promoters, the lenders, the NBFCs and the auditors and that the funds were utilized mainly to repay obligations that safeguarded the interests of CG Power itself. It is now clear that a default of loan availed at the holding company by the promoters triggered these series of events that led to control of management, changes in the boardroom, acquisition of shares by KKR, and subsequent changes. Did KKR act as persons-acting-in concert (PAC) with other shareholders like Bharti and L&T Finance and then precipitate the board and management changes. These incidents led to minority shareholders of CG Power suffering loss of value from 2016 onwards but was precipitated in 2019.

CG POWER AND INDUSTRIAL SOLUTIONS LIMITED

VOTE RECOMMENDATIONS FOR 2020 ANNUAL GENERAL MEETING

ISIN:	INE067A01029
Meeting date & time:	October 19, 2020, Monday, 3:00 PM IST
Meeting venue:	Video Conferencing
E-voting Details	NSDL, October 15, 2020 – October 18, 2020

Proposals – Management & InGovern Recommendations

Res	Resolution Title	Management	InGovern
1	Adoption of Standalone and Consolidated Accounts	For	Abstain
2	Re-appointment of Mr. Sudhir Mathur as a director	For	Against
3	Ratification of remuneration paid to Cost Accountants	For	For
4	Appointment of Mr. Pradeep Mathur as an Independent Director	For	For
5	Appointment of Dr. Aditi Raja as an Independent Director	For	For
6	Appointment of Dr. Rathin Roy as an Independent Director	For	For
7	Waiver of excess remuneration paid to Mr. Sudhir Mathur	For	For
8	Payment of remuneration to Mr. Sudhir Mathur in case of inadequacy of profits	For	Against
9	Reclassification of existing promoters as public	For	For

Serial Number	Name	Appointment Date	Details of Directors		Status					Committees				
			Years as Director	Date of Appointment as Director	Chairman	MD	Executive	Non - Executive	Independent	Audit	Nomination & Remuneration	Stakeholder Relationship	Risk	Capital Restructuring
1	Ashish Kumar Guha	09-11-2017	2	2017	c			✓	✓	✓	✓			✓
2	Ramni Nirula	06-04-2016	3	2016				✓	✓	✓		✓		
3	Jitender Balakrishnan	02-05-2017	2	2017				✓	✓	c	✓			
4	Narayan K Seshadri	08-03-2019	1	2019				✓	✓		c			
5	Sudhir Mathur	01-10-2018	2	2018			✓					✓	✓	✓
6	Pradeep Mathur	30-12-2019	0	2019				✓	✓	✓			✓	c
7	Aditi Raja	24-01-2020	0	2020				✓	✓	✓		c		
8	Rathin Roy	24-01-2020	0	2020				✓	✓		✓		c	✓

✓: Member; c: Chairman; Highlighted (in Blue) Directors are being appointed/re-appointed in the current AGM

Serial Number	Name	Appointment Date	Meetings												
			AGM	Board			Audit			Nomination & Remuneration			Stakeholder Relationship		
1	Ashish Kumar Guha	09-11-2017	Yes	17	17	100%	17	12	71%	9	9	100%			
2	Ramni Nirula	06-04-2016	Yes	17	15	88%	17	13	76%				1	1	100%
3	Jitender Balakrishnan	02-05-2017	Yes	17	17	100%	17	17	100%	9	9	100%			
4	Narayan K Seshadri	08-03-2019	Yes	17	15	88%				9	7	78%			
5	Sudhir Mathur	01-10-2018	Yes	17	16	94%							1	1	100%
6	Pradeep Mathur	30-12-2019	NA	4	4	100%	3	3	100%						
7	Aditi Raja	24-01-2020	NA	4	4	100%	3	3	100%				1	1	100%
8	Rathin Roy	24-01-2020	NA	4	2	50%				1	1	100%			

✓: Member; c: Chairman; Highlighted (in Blue) Directors are being appointed/re-appointed in the current AGM

Resolution No.1: Adoption of Standalone and Consolidated Accounts

Type of Resolution: Ordinary

Management Recommendation : FOR

InGovern Recommendation : FOR

The Board proposes to receive, consider, and adopt the Audited Financial Statements for the Financial Year ended 31 March 2020 and the Reports of the Board of Directors and the Statutory Auditors thereon.

The statutory auditors B S R & Co. LLP, Chartered Accountants (Firm Registration No. 101248W/W- 100022) have made a **Qualified Opinion** on the accounts.

- At the previous AGM, two firms: S R B C & CO LLP (Registration No. 324982E/ E300003) (SRBC) and M/s K K Mankeshwar & Co. (Registration No.106009W) (KKM) were appointed as Joint Statutory Auditors of the Company, for a term of 5 years.
- Due to certain unexplained payments made to KKM as well as association of its partner with certain identified entities named in the Phase I investigation report, the Audit Committee issued a show cause notice to KKM under Section 140(1) of the Companies Act.
- The Board determined that KKM cannot be independent, and decided to seek approval of the Central Government for removal of KKM as Joint Statutory Auditor
- KKM resigned as the Joint Statutory Auditors on 25 January 2020.

SRBC, being the other joint statutory auditor, has conducted the audit of financial statements.

The audited financial statements does not contain an opinion of the Statutory Auditors because of matters described in the “Basis for Disclaimer of Opinion” in the Auditors’ Reports which are included in this Annual Report.

Basis for Disclaimer of Opinion reads

As explained in the note 2.1 and note 3A(a) of the Standalone Financial Statements, National Company Law Tribunal (NCLT) has passed an order allowing the Ministry of Corporate Affairs (MCA) to reopen the books of accounts and recast of financial statements of the Company and its subsidiaries (‘Proposed Revision’) under Section 130 of the Companies Act 2013. As stated in note 2.1, the Board of Directors of the Company, taking into significance of the basis of preparation and the matters described in notes to the Standalone Financial Statements, believes that the accompanying Standalone Financial Statements have not been prepared in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) specified under section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015, as amended, hence could be materially misstated and thus, do not present a true and

fair view. We are unable to determine the consequential impact of the aforesaid Proposed Revision and the impact of certain specific transactions / matters and disclosures on the Standalone Financial Statements.

The Board, the management and the statutory auditors are unanimous that they “cannot claim that the standalone and consolidated financial statements for the financial year ended 31 March 2019, represent a true and fair view of the financial position of the Company”.

In such case shareholders should wait until after the restatement of the financial statements to finally vote. We recommend shareholders **ABSTAIN** from voting on the proposal.

Resolution No.2: Reappointment of Mr. Sudhir Mathur as Director

Type of Resolution: Ordinary

Management Recommendation : FOR
InGovern Recommendation : AGAINST

This proposal is for ratification of Mr. Sudhir Mathur as a Director on the Board of the Company w.e.f. October 1, 2018. He was initially appointed as an Independent Director in 2018 but on May 10, 2019 he was re-appointed as a wholetime director of the Company.

Mr. Mathur was the President & CFO of Ballarpur Industries Ltd (“BILT”) from 1998 to 2004. The promoter of BILT is Mr. Gautam Thapar who was also the promoter of CG Power.

InGovern had in our previous report recommended voting against the appointment of Mr. Mathur as we believe that the AGM is an opportunity for the Board to be refreshed and for the shareholders to send across a message to the Board to not appoint any ex-key management persons of the group. The new investors should also work towards overhauling the management of the company.

Hence, we recommend shareholders vote **AGAINST** the proposal.

Resolution No.3: Ratification of Remuneration to Cost Accountants

Type of Resolution: Ordinary

Management Recommendation : FOR

InGovern Recommendation : FOR

The Board has reappointed M/s. R. Nanabhoy & Associates as the cost accountants of the company for FY2021. They will be paid a remuneration of Rs. 7 Lakh plus taxes and reimbursement of expenses.

There are no concerns with this proposal. We recommend shareholders vote **FOR** the proposal.

Resolution No. 4: Appointment of Mr. Pradeep Mathur as Independent Director

Type of Resolution: Ordinary

Management Recommendation : FOR

InGovern Recommendation : FOR

The Board proposes ratification of appointment of Mr. Pradeep Mathur as an Independent Director w.e.f. December 30, 2019. His tenure as ID will end on December 29, 2024.

Brief Profile:

- 62 years old, US Citizen
- Entrepreneur and Investor
- PGDM from IIM Ahmedabad
- Total experience of around 37 years
- Ex MD of Tupperware India; Ex Senior VP and Global CFO of Tupperware Group

In CG Power:

- Member: Audit Committee, Risk Committee, CSR Committee
- Chairman: Capital Restructuring Committee

There are no concerns regarding his appointment. We recommend shareholders vote **FOR** the resolution.

Resolution No. 5: Appointment of Dr. Aditi Raja as Independent Director

Type of Resolution: Ordinary

Management Recommendation : FOR

InGovern Recommendation : FOR

The Board proposes ratification of appointment of Dr. Aditi Raja as an Independent Director w.e.f. January 24, 2020. Her tenure as ID will end on January 23, 2025.

Brief Profile:

- 60 years old, Woman Director on Board
- Master in Business Law from National Law College; PhD and MSc from Indian Agricultural Research Institute
- 34 years of senior managerial experience including 16 years as an Indian Audits and Accounts Service officer
- Ex Director of Mangalore Electricity Supply Company Limited, Karnataka Viduyuth Karkhane Ltd

In CG Power:

- Member: Audit Committee
- Chairman: SR Committee

There are no concerns regarding her appointment. We recommend shareholders vote **FOR** the resolution.

Resolution No. 6: Appointment of Mr. Rathin Roy as Independent Director

Type of Resolution: Ordinary

Management Recommendation : FOR

InGovern Recommendation : FOR

The Board proposes ratification of appointment of Dr. Rathin Roy as an Independent Director w.e.f. January 24, 2020. His tenure as ID will end on January 23, 2025.

Brief Profile:

- 54 years old
- PhD and M. Phil in Economics from University of Cambridge

- 30 years of experience
- MD of Overseas Development Institute (ODI), London; Ex Director and CEO of National Institute of Public Finance and Policy, New Delhi; Ex Member of Economic Advisory Council to the Prime Minister of India

In CG Power:

- Member: N&R Committee, Capital Restructuring Committee
- Chairman: Risk Committee

There are no concerns regarding his appointment. We recommend shareholders vote **FOR** the resolution.

Resolution No.7: Waiver of Excess Remuneration paid to Mr. Sudhir Mathur

Type of Resolution: Special

Management Recommendation : FOR

InGovern Recommendation : FOR

Mr. Sudhir Mathur, who was appointed as a Wholetime Director of the Company on May 10, 2019, was paid a remuneration of Rs. 2.79 Crore in FY2020. As the company posted losses, the said remuneration was in excess of limits as specified under the Companies Act. Hence, the Board proposes waiver of excess remuneration paid to Mr. Mathur in FY2020.

The losses posted by the Company was due to multiple reasons, one of the main reasons being significant monetary diversions and financial irregularities by former management and promoters. We have recommended shareholders vote against his reappointment through the resolution no.2 to send across a message to the Board to not appoint any ex-key management persons of the group. The new investors should also work towards overhauling the management of the company.

However, this resolution pertains to waiver of the remuneration already paid to him during FY2020. If we compare the remuneration paid to Mr. Mathur for a 10-month period (May 2019 to March 2020) with his peers for the whole of FY2020, we see that the remuneration is not excessive even considering the losses posted by the company due to exceptional circumstances.

Company	CG Power	GE T&D India	GE T&D India	TD Power Systems	ABB India
Executive	Sudhir Mathur	Gaurav M Negi	Nagesh Tilwani	Nikhil Kumar	Sanjeev Sharma
Designation	ED (10 months)	ED & CFO (6 months)	ED	MD	MD
Revenues	3226	3218	3218	494	7409
Net Profits	1799	(302)	(302)	16	303
Salary	2.65	0.84	0.94	2.38	6.10
Perquisites	-	0.03	0.03	-	0.76
Variable	-	-	-	-	-
Retiral benefits	0.14	0.05	0.08	0.18	0.36
Total	2.79	0.93	1.04	2.57	7.22

All figures in Rs. Crore; Revenues & Net profits are on standalone basis; Source: Annual Reports

Considering these factors, we recommend shareholders vote **FOR** the resolution.

Resolution No. 8: Remuneration to Mr. Sudhir Mathur in case of inadequacy of profits

Type of Resolution: Special

Management Recommendation : FOR
InGovern Recommendation : AGAINST

Mr. Sudhir Mathur was appointed as a wholetime director of the Company for a period of 5 years w.e.f. May 10, 2019.

His remuneration includes:

- Fixed pay of Rs. 2.5 Crore per annum
- Perquisites and allowance of up to Rs. 1 Crore per annum
- Performance linked incentive of Rs. 1.5 Crore

The Board is proposing to pay the same remuneration going forward in case of inadequacy of profits.

However, since we have recommended shareholders vote against his re-appointment as a director, we accordingly recommend shareholders vote **AGAINST** this resolution.

Resolution No.9: Reclassification of existing promoters as public

Type of Resolution: Ordinary

Management Recommendation : FOR

InGovern Recommendation : FOR

The erstwhile promoter Mr. Gautam Thapar and his related entities have been barred by SEBI from accessing the securities market and being associated with any intermediary registered with SEBI or any listed entity till further orders.

The residual shareholding of Mr. Thapar's entities in CG Power stands at 0.002% of the equity capital. The shareholding is presented in the following table:

Name	No. of Shares	%
Varun Prakashan Private Limited	5,022	0.001
Avantha Realty Limited	3,552	0.001
Avantha Holdings Limited		-
Total	8,574	0.002

These shareholders are still being classified as 'promoters'. The Board proposes reclassifying these shareholders as public shareholders.

The company is in a transition phase with a new strategic investor and controlling shareholder - Tube Investments - who will also be recognised as new promoters. Hence, we recommend shareholders vote **FOR** the resolution.

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Board Committees	• Audit, Nomination, Shareholders, Risk, Remuneration Committees • Composition, Meetings, Powers, Responsibilities
Management & Operations	• Code of Conduct, Remuneration Policies, Risk Management, Whistleblower Policies
Audit & Accounts	• Audit & Accounts, Auditor Independence, Ethical Standards for Audit
Shareholders Rights	• Related Party Transactions, Shareholders Meetings & Voting, Other Rights
Disclosures	• Audit & Accounts, Board (Appointments, Composition, Remuneration, Meetings), Board Committees, Independent Directors, Management & Operations, Ownership, Shareholder Meetings, Whistle Blower Policies, etc



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