



**REPORT OF AUDIT & COMPLIANCE COMMITTEE OF GHCL LIMITED RECOMMENDING DRAFT SCHEME OF ARRANGEMENT OF GHCL LIMITED ('DEMERGED COMPANY') AND GHCL TEXTILES LIMITED ('RESULTING COMPANY') ISSUED AT THE MEETING OF THE AUDIT & COMPLIANCE COMMITTEE HELD ON MONDAY, DECEMBER 6, 2021 THROUGH VIDEO CONFERENCING OR OTHER AUDIO VISUAL MEANS AT GHCL HOUSE, B-38, INSTITUTIONAL AREA, SECTOR -1, NOIDA COMMENCED AT 12:45 PM AND CLOSED AT 1:40 PM**

**Members present in person through VC:**

1. Dr. Manoj Vaish – Chairman (Independent Director)
2. Mrs. Vijaylaxmi Joshi – Member (Independent Director)
3. Justice Ravindra Singh – Member (Independent Director)
4. Mr. Arun Kumar Jain - Member (Independent Director)

**Invitees:**

1. Mr. R S Jalan, Managing Director
2. Mr. Raman Chopra – CFO & Executive Director (Finance)
3. Mr. Neelabh Dalmia – Executive Director (Textiles)
4. Mr. Bhuneshwar Mishra – Sr. GM - Sustainability & Company Secretary
5. Mr. Manoj Kumar Ishwar- AGM Secretarial

**1 Background**

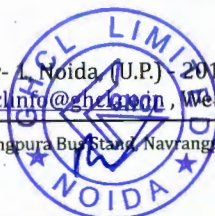
The draft Scheme of Arrangement consisting of demerger of the Spinning Division of GHCL Limited ('Demerged Company' or 'Company') into GHCL Textiles Limited ('Resulting Company' or 'WOS') and their respective shareholders and creditors (hereinafter referred to as "Scheme") was placed before the Audit & Compliance Committee of GHCL Limited at the meeting held on Monday, December 6, 2021.

The Resulting Company is a wholly owned subsidiary of GHCL Limited.

The Scheme of Arrangement consisting of demerger of Spinning Division has been placed before the Audit & Compliance Committee for its recommendation:

**2 The salient features of the Scheme are as follows:**

- The "Appointed Date" shall mean the Effective Date;
- The "Effective Date" means the date or last of the dates on which certified copies of the order of the NCLT sanctioning the scheme are filed by the Demerged Company and the Resulting Company with the registrar of companies;
- Based on the Share Entitlement Report(s) dated 6-Dec-2021 issued by Mr. Niranjana Kumar, Registered Valuer (IBBI Registration No - IBBI/RV/06/2018/10137), appointed for the purpose of the arrangement as prescribed in Para (A)(4) of Part I of the SEBI Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021 , the following share exchange ratio is proposed:



*"1 (One) equity share of the Resulting Company of face value of INR 2 each fully paid up shall be issued for every 1 (One) equity share of INR 10 each fully paid up held in the Demerged Company (i.e. GHCL)"*

- The Fairness Opinion confirmed that the share exchange ratio in the Share Entitlement Report is fair to the Demerged Company and the Resulting Company and their respective shareholders.
- Further, S.R. Batliboi & Co. LLP, Statutory Auditors of the Company have confirmed that the accounting treatment as specified in the Scheme are in accordance with applicable Accounting Standards specified by the Central Government in Section 133 of the Companies Act, 2013.
- Upon the Scheme becoming effective, the share capital of the Resulting Company, as held by GHCL Limited, shall be cancelled and extinguished without any further act, deed or instrument as an integral part of this Scheme.

### **3 Comment by the Audit & Compliance Committee on the Scheme:**

The Audit & Compliance Committee, constituted with independent directors, reviewed and provided the following comments on the Scheme.

#### **3.1. Need for the Demerger:**

The Demerged Company is inter-alia engaged in varied business verticals namely Chemical, Spinning and Home Textiles. The Chemical business is highly capital driven with long gestation period and the Textiles business (consisting of Spinning Division and Home Textiles Division), on the other hand, is dynamic, more volatile to domestic and international market conditions, heavily dependent on product innovations and development, which require different skill sets and capabilities.

Management believes that the risk and reward associated with each of the aforesaid business verticals are different and are at different maturity stage in their life cycles. Each business verticals have a distinct attractiveness to divergent set of investors. With a view to unlock the potential of each of the business verticals, the management intends to demerge the Spinning Division, on a going concern basis, into GHCL Textiles Limited, with a resultant mirror image shareholding, and whose shares would be listed on the Stock Exchange after the demerger. It is intended for the Demerged Company to focus on the Chemical Business and the Resulting Company to focus on the Spinning Business. The management believes that such concentrated efforts shall benefit all stakeholders of the Demerged Company and Resulting Company, respectively.

#### **3.2. Rationale of the Scheme:**

Rationale for the Scheme is as follows:

- a. Facilitate focused growth, concentrated approach, business synergies and increased operational and customer focus for respective business verticals.
- b. Rationalization of operations with greater degree of operational efficiency and optimum utilization of various resources.
- c. The Resulting Company, with clear identity of being in a Spinning Business, will enable right customer attention resulting in deeper market penetration.



- d. Creating and enhancing stakeholder's value by unlocking the intrinsic value of its core businesses and listing of shares of the Resulting Company;
- e. Ability to leverage financial and operational resources in each business verticals will lead to possibilities of joint ventures and associations with other Industry participants, both in India and globally, and will facilitate attracting greater talent pool.
- f. Each business will be able to address independent business opportunities with efficient capital allocation and attract different set of investors, strategic partners, lenders and other stakeholders, thus leading to enhanced value creation for shareholders, which would be in the best interest of the Demerged Company and Resulting Company and their respective stakeholders connected therewith.
- g. Simplification and rationalization of business undertakings holding structure of the Company.

The Audit & Compliance Committee is of the view that the rationale and purpose of the proposed demerger as mentioned in the Scheme justify the basis for the demerger.

### **3.3. Synergies of business of the entities involved in the Scheme:**

The Resulting Company, with clear identity of being in a Spinning Business, will enable right customer attention resulting in deeper market penetration. In addition, it will lead to focused operational efforts, rationalization, simplification of business processes since both entities part of the same group.

The demerger will lead to a more efficient utilization of capital, greater business synergies and create a diversified base for future growth.

### **3.4. Impact of the Scheme on the Shareholders:**

Both the promoter and non-promoter shareholders of the Demerged Company will receive equity shares in the Resulting Company in accordance with Clause 5 of the Scheme.

Further, the existing equity share capital of the Resulting Company, held by the Demerged Company, shall stand cancelled in terms of the Clause 7.2.4 of the Scheme. The cancellation of equity share capital will be effected as part of the Scheme in accordance with provision of Section 66 of the Act and the order of the NCLT shall be deemed to be the order under the applicable provisions of the Act for confirming the cancellation of share capital.

The Scheme is not, in any manner, prejudicial or against public interest and would serve the interest of all shareholders, creditors or any other stakeholders.

### **3.5. Cost benefit analysis of the Scheme:**

The consideration to be discharged by the Resulting Company to the equity shareholders of the Demerged Company in accordance with clause 5 of the Scheme is in accordance with the Share Exchange Ratio Report and Fairness Opinion obtained by the Company in relation to the demerger.

All costs, charges, taxes including duties, levies and all other expenses, if any (save as expressly otherwise agreed) of the Demerged Company and the Resulting Company arising out of or incurred in connection with and implementing this Scheme and matters incidental thereto shall be borne by the Demerged Company.





The Company would incur only implementations costs (like - advisers fees, stamp duty) in relation to the Scheme. In view thereto, Audit & Compliance Committee is of the view that the costs incurred towards the implementation of the Scheme would foreshadows the long-run benefit that can be derived by achieving strategic and operational synergies envisaged under the Scheme.

#### 4 Recommendation of the Audit & Compliance Committee

After consideration of the draft Scheme, the members of the Audit & Compliance Committee formed an opinion that the implementation of the proposed Scheme of Arrangement involving Demerger of Spinning Division is in the interest of the Company and its shareholders, creditors and other stakeholders.

The Audit & Compliance Committee hereby approves and recommends the draft scheme for favorable consideration by the board of directors, Stock Exchange(s), SEBI and other appropriate authorities.



**For and on behalf of Audit &  
Compliance Committee of GHCL Limited**

**Dr. Manoj Vaish  
Chairman of Audit & Compliance Committee**

Place: Mumbai

Dated: December 6, 2021