



HINDUSTAN FOODS LIMITED

A Vanity Case Group Company

Registered Office: Office No.3, Level-2, Centrium, Phoenix Market City,
15, Lal Bahadur Shastri Road, Kurla (West), Mumbai, Maharashtra, India. 400 070.

Email: business@thevanitycase.com Website: www.hindustanfoodslimited.com

Tel. No. +91-22-61801700 / 01 CIN: L15139MH1984PLC316003

REPORT OF THE AUDIT COMMITTEE OF HINDUSTAN FOODS LIMITED RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT (COMPOSITE) OF DEMERGER OF AVALON COSMETICS PRIVATE LIMITED INTO HINDUSTAN FOODS LIMITED AND AMALGAMATION OF ATC BEVERAGES PRIVATE LIMITED WITH HINDUSTAN FOODS LIMITED.

Present - Members

- a) Mr. Shashi Kalathil : Chairman of the Audit Committee
- b) Ms. Honey Vazirani : Member
- c) Mr. Sarvjit Singh Bedi : Member
- d) Mr. Sanjeev Mehta : Member

In attendance

- a) Mr. Bankim Purohit : Company Secretary

Invitees:

- a) Mr. Sameer Kothari : Managing Director
- b) Mr. Ganesh Argekar : Executive Director
- c) Mr. Mayank Samdani : Chief Financial Officer
- d) Mr. Amrish Vaidya : }MSKA & Associates, Statutory
- e) Mr. Ankush Agrawal : }Auditors

1. Background

- 1.1 The Proposal to approve a Composite Scheme of Arrangement and Amalgamation between Hindustan Foods Limited ('the Company' or 'the Resulting Company' or 'the Transferee Company' or 'HFL'), Avalon Cosmetics Private Limited ('Demerged Company' or 'ACPL') and ATC Beverages Private Limited ('the Transferor Company' or 'ABPL') was placed before and considered by the members of the Audit Committee at its Meeting held on Monday, March 16 2020 at 10.00 a.m at the Registered Office of the Company at Office No. 03, Level 2, Centrium, Phoenix Market City, 15, Lal Bahadur Shastri Road, Kurla (West), Mumbai 400 070. The said proposal would involve (a) the transfer by way of a Demerger of the Contract Manufacturing (Coimbatore) Business ('Demerged Undertaking') of the Demerged Company to the Company and consequent issue of Equity Shares by the Company to the Shareholders of the Demerged Company ('Demerger'); (b) the amalgamation of Transferor Company with the Company and consequent issue of Equity Shares by the Company to the Shareholders of the

VANITYCASE
Integrity Initiative Innovation





Transferor Company ('Amalgamation') and (c) various other matters consequential or otherwise integrally connected therewith, with effect from the Appointed Date or such other date as may be approved by NCLT or any other competent authority, in accordance of the terms of a Composite Scheme of Arrangement and Amalgamation between the Company, the Demerged Company, the Transferor Company and their respective Shareholders. The said proposal ('Draft Scheme of Arrangement' or 'the Scheme') is to be implemented in accordance with Sections 230 to 232 of the Companies Act, 2013 and other applicable provisions, if any, of the Companies Act, 2013, as may be applicable.

- 1.2 The Equity shares of the Company are listed on BSE Limited ("BSE"). The Company will be filing the Scheme along with necessary information / documents with the mentioned Exchange.
- 1.3 The Report of Audit Committee is made in order to comply with the requirements of the SEBI circular No CFD/DIL3/CIR/2017/21 dated March 10, 2017 read with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 after considering the following:
 - a) Draft Scheme, duly initialed by Company Secretary of the Company for the purpose of identification;
 - b) Valuation Report of M/s. Bhavesh Mansukhbhai Rathod, Registered Valuer (IBBI/RV/06/2019/10708) dated 16th March 2020, being valuer appointed for the purpose of the scheme.
 - c) Fairness Opinion Report dated 16th March 2020 issued by M/s. Dalmia Securities Private Limited, Category I Merchant Banker providing the fairness opinion on the share entitlement recommended in the valuation report prepared by M/s. Bhavesh Mansukhbhai Rathod, Registered Valuer; and
 - d) Certificate dated 16th March, 2020 obtained from the Statutory Auditors of the Company i.e. M/s. MSK & Associates, Chartered Accountants to the effect that the Scheme is in compliance with applicable Accounting Standards specified by the Central Government in Section 133 of the Companies Act, 2013

2. Rationale for the Scheme

- 2.1 HFL is engaged in the contract manufacturing of various FMCG segment products such as extruded foods, cereals, frozen processed foods, farinaceous foods, fabric care, hair care, household insecticides, surface cleaning, food and beverages, aerosol, pump spray products, baby products, all type of mosquito coils, repellants, liquid vaporizers, other products related to foot care, foot wear and allied products. The Contract Manufacturing (Coimbatore) Undertaking of ACPL is engaged in Malt based foods and food products and energy drinks. HFL holds 45.40% of the paid-up Equity Share Capital of ATC Beverages Private Limited ('ABPL'), which is engaged in the business of manufacture of beverages like soft drinks, juices and energy drinks. ABPL is also



carrying on the business of contract manufacturing of carbonated beverages and fruit juices. In order to enable greater focus on these segments, this Scheme provides for the Demerger of the Contract Manufacturing (Coimbatore) Business of ACPL into HFL and Amalgamation of ABPL into HFL.

Amongst others, the Demerger of Contract Manufacturing (Coimbatore) Business of ACPL into HFL would result in the following benefits: -

- Concentrated management focus on the businesses in a more professional manner and to create a more competitive business both in scale and operations. The Resulting Company would develop combined long-term corporate strategies and financial policies, thus enabling better management and accelerated growth of the business.
- Operational rationalization, organizational efficiency and optimal utilization of various resources due to pooling of management, administrative and technical skills of various resources of both the companies, better administration, and cost reduction, including reduction in managerial, administrative and other common costs;
- Providing better flexibility in accessing capital, focused strategy and specialization for sustained growth; and
- Creation of value for various stakeholders and shareholders;

Amongst others, the Amalgamation of ABPL into HFL would result in the following benefits: -

- Enhancement of net worth of the combined business to capitalize on future growth potential since both entities are engaged in similar areas of business;
- Achieve optimal utilization of resources, better administration and cost reduction;
- Expansion and diversification of business, foraying into new product line and broadening the customer base;
- Creating synergies in operational process and enhancing competitive strength and
- Creating value for various stakeholders and shareholder.

3. Proposed Scheme

3.1 The "Appointed Date" for the Scheme is :-

- (a) 1st April, 2020 or such other date as may be approved by NCLT or any other competent authority for the purposes of the Demerger;
- (b) 1st April, 2020 or such other date as may be approved by NCLT or any other competent authority for the purposes of the Amalgamation;

3.2 The "Effective Date" for the Scheme is the date on which the certified copy of the order of the NCLT sanctioning this Scheme of Arrangement, is received and filed by ACPL, ABPL and HFL with respective Registrar of Companies;



A handwritten signature in black ink, appearing to be 'DM', with a horizontal line underneath it.





3.3 In furtherance of the aforesaid rationale, the Scheme provides Demerger of the Contract Manufacturing (Coimbatore) Business ('Demerged Undertaking') of the Demerged Company to the Company and the Amalgamation of Transferor Company with the Company and various other matters consequential or otherwise integrally connected therewith.

4. Demerger

- (a) The Demerged Undertaking, i.e. Contract Manufacturing (Coimbatore) Business of the Demerged Company (as defined in the Scheme) shall stand transferred to and vested in or deemed to be transferred to and vested in the Resulting Company, as a going concern, in accordance with Section 2(19AA) of the Income Tax Act, 1961.
- (b) The Demerged Company, with effect from the Appointed Date and up to and including the Effective Date shall be deemed to have been carrying on and to be carrying on all business and activities relating to the Demerged Undertaking in trust for the Company;
- (c) The Remaining Avalon Cosmetics Private Limited (as defined in the Scheme) shall continue to belong to and be vested in and be managed by the Demerged Company subject to the provisions of the Scheme.
- (d) In consideration of the transfer of the Demerged Undertaking, the Company shall issue and allot to each member of the Demerged Company, as of the date as may be stipulated by the Board of Directors of the Company in accordance with applicable laws and regulations, equity shares in the Company as per the share entitlement ratio recommended by the valuers and approved by the Boards of Directors of the Company and the Demerged Company.
- (e) Pursuant to the Demerger of the Demerged Undertaking and consequent to the accounting treatment prescribed in the Scheme, difference between the book value of assets pertaining to the Contract Manufacturing (Coimbatore) Business demerged from the Demerged Company and the book value of the liabilities pertaining to the Contract Manufacturing (Coimbatore) Business demerged from the Demerged Company shall be adjusted against the reserves of the Demerged Company.

5. Amalgamation

- (a) Upon the coming into effect of the Scheme and with effect from the Appointed Date, the entire business and whole of the Undertaking of Transferor Company (including, inter alia: all the assets and properties, investments, permits, quotas, rights, liabilities, benefits and obligations under the contracts, all books, records, files etc, all the employees) shall stand transferred to the Company, as a going concern in accordance with Section 2(1B) and other applicable provisions of the Income Tax Act 1961 and pursuant to the Order of NCLT, provisions of Sections 230 to 232 of the Companies Act, 2013 and other applicable provisions of the Act in the manner provided in the Scheme.





- (b) With effect from the Appointed Date and upto and including the Effective Date the Transferor Company shall carry on and deemed to have carried on its business and activities and shall stand possessed of their entire business and undertakings, in trust for the Company and shall account for the same to the Company.
- (c) In consideration of the Amalgamation, the Company shall issue and allot to each member of the Transferor Company, as of the date as may be stipulated by the Board of Directors of the Company in accordance with applicable laws and regulations, equity shares in the Company as per the share entitlement ratio recommended by the valuers and approved by the Boards of Directors of the Company and the Transferor Company.
- (d) Upon the coming into effect of the Scheme, the Transferor Company shall stand dissolved without winding-up.
6. The Audit Committee reviewed the valuation report and noted the report and recommended the following:

In consideration for the Demerger and Amalgamation in terms of the Scheme and based on valuation report issued by M/s. Bhavesh Mansukhbhai Rathod, Registered Valuer and fairness opinion provided by M/s. Dalmia Securities Private Limited, Category I Merchant Banker, the Company will issue and allot an aggregate of (a) 1 fully paid-up equity shares of the face value of Rs. 10/- each of the Company shall be issued and allotted for 0.755 equity share of face value Rs. 10/- each fully paid up held by such shareholder in the Demerged Company pursuant to the Demerger; (b) 1 fully paid-up equity shares of the face value of Rs. 10/- each of the Company shall be issued and allotted for 16,228 equity shares of face value Rs. 10/- each fully paid up held by such shareholder in the Transferor Company pursuant to the Amalgamation. For the purpose of this, partly paid up equity shares held by such shareholder in the Transferor Company will not be considered as the calls have not been paid up fully and the value per equity shares is less than the unpaid value of such calls; (c) 1 fully paid-up equity share of the face value of Rs. 10/- each of the Company shall be issued and allotted for 16,228 preference shares of face value Rs. 10/- each fully paid up held by such shareholder in the Transferor Company pursuant to the Amalgamation.

as defined in the Draft Scheme, in the proportion of their holding in the Demerged Company and the Transferor Company respectively.

- 6.1 Further, the Fairness Opinion confirmed that the share entitlement in the valuation report is fair to the Company, Demerged Company and the Transferor Company and their respective shareholders.
- 6.2 Further, M/s. MSK & Associates, Chartered Accountants, 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.



6.3 The proposed Appointed Date for the amalgamation will be:-

- (a) 1st April, 2020 or such other date as may be approved by NCLT or any other competent authority for the purposes of the Demerger;
- (b) 1st April, 2020 or such other date as may be approved by NCLT or any other competent authority for the purposes of the Amalgamation.

7. **Recommendations of the Audit Committee**

- 7.1 The Audit Committee after due deliberations and due consideration of all the terms of the draft Scheme, Valuation report, Fairness Opinion Report and the specific points mentioned above, recommends the draft Scheme for favorable consideration by the Board of Directors of the Company, the BSE Limited and Securities Exchange Board of India.

By Order of the Audit Committee

For and on behalf of

HINDUSTAN FOODS LIMITED

Shashi Kalathil

Chairperson of the Audit Committee

Date: March 16, 2020

Place: Mumbai

