



**REPORT OF THE AUDIT COMMITTEE OF VARDHMAN TEXTILES LIMITED
("COMPANY") RECOMMENDING THE DRAFT COMPOSITE SCHEME OF ARRANGEMENT
AMONGST THE COMPANY, VARDHMAN ACRYLICS LIMITED, VMT SPINNING
COMPANY LIMITED, VTL INVESTMENTS LIMITED, VARDHMAN NISSHINBO
GARMENTS COMPANY LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND
CREDITORS**

1. **Members**

- (a) Mr. Prafull Anubhai
- (b) Mr. D.L. Sharma
- (c) Mr. A.K. Kundra
- (d) Dr. S.K. Bijlani
- (e) Mr. D.B. Jain

2. **Background**

In accordance with Section 177 of the Companies Act, 2013 ("**Act**") read with Rule 6 of the Companies (Meetings of Board and its Powers) Rules 2014, provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**Listing Regulations**"), the circular number CFD/DIL3/CIR/2017/21 dated March 10, 2017 issued by the Securities and Exchange Board of India ("**SEBI**"), read with the circular number CFD/DIL3/CIR/2017/26 dated March 23, 2017 issued by the SEBI, the circular number CFD/DIL3/CIR/2017/105 dated September 21, 2017 issued by the SEBI and the circular number CFD/DIL3/CIR/2018/2 dated January 3, 2018 issued by the SEBI (collectively, the "**SEBI Circulars**"), the relevant rules, circulars and notifications issued under the Act and any other applicable laws, rules and regulations (including in each case any amendment(s), statutory modification(s) or re-enactment(s) for the time being in force), a draft of a composite scheme of arrangement amongst VMT Spinning Company Limited ("**Transferor Company 1**"), VTL Investments Limited ("**Transferor Company 2**"), Vardhman Nisshinbo Garments Company Limited ("**Transferor Company 3**"), Vardhman Acrylics Limited ("**Transferor Company 4**"), and the Company and their respective shareholders and creditors under Sections 230-232 and other relevant provisions of the Act ("**Scheme**"), was placed before the audit committee of the Company ("**Audit Committee**"), for its consideration, and recommendation to the board of directors of the Company ("**Board**").

This report has been made by the Audit Committee after perusing *inter alia* the following necessary documents ("**Documents**"):

- (a) Draft Scheme;
- (b) Fairness opinion dated 09 August, 2019, from SBI Capital Markets Limited, an independent merchant banker registered with the SEBI;





- (c) Valuation report dated 09 August, 2019, from BSR & Associates LLP, an independent chartered accountants and a valuation report dated 09 August, 2019, from Mr. Puneet Khandelwal, a registered valuer under the Act; and
- (d) certificate dated 13 August, 2019 issued by Deloitte Haskins & Sells LLP, the statutory auditors of the Company, certifying that the accounting treatment proposed in the Scheme is in compliance with the accounting standards prescribed under the Act

3. Proposed Scheme

The Audit Committee perused the Documents placed before it for its consideration and noted that the salient features of the draft Scheme are as under:

- (i) amalgamation of the Transferor Company 1 with and into the Company in accordance with Section 2 (1B) of the Income Tax Act, 1961 (“IT Act”); (b) dissolution without winding up of the Transferor Company 1; and (c) transfer of the authorized share capital from the Transferor Company 1 to the Company;
- (ii) amalgamation of the Transferor Company 2 with and into the Company in accordance with Section 2 (1B) of the IT Act; (b) the cancellation of the issued and paid-up equity share capital of the Company held by the Transferor Company 2, in the manner set out in Section II of the Scheme; (c) dissolution without winding up of the Transferor Company 2; and (d) transfer of the authorized share capital from the Transferor Company 2 to the Company;
- (iii) amalgamation of the Transferor Company 3 with and into the Company in accordance with Section 2 (1B) of the IT Act; (b) dissolution without winding up of the Transferor Company 3; and (c) transfer of the authorized share capital from the Transferor Company 3 to the Company;
- (iv) amalgamation of the Transferor Company 4 with and into the Company in accordance with Section 2 (1B) of the IT Act; (b) dissolution without winding up of the Company; and (c) transfer of the authorized share capital from the Transferor Company 4 to the Company; and
- (v) pursuant to the amalgamation of the Transferor Company 4 with and into the Company, the Company will issue equity shares to the equity shareholders of the Transferor Company 4 as on the Record Date (*as defined in the Scheme*) in accordance with the following share entitlement ratio:
 - 1 (One) fully paid up equity shares of the face value of INR 10 (Indian Rupees Ten only) of the Company for every 24.1 (Twenty Four Point One) fully paid up equity shares of the face value of INR 10 (Indian Rupees Ten only) each held in the Transferor Company 4.
- (vi) the appointed date for the Scheme (i.e. the date from which the Scheme will take effect) is opening of business hours as on April 1, 2020.





The Audit Committee also noted the rationale of the Scheme which is as follows:

- (i) The amalgamation of the Transferor Companies with and into the Company will enable consolidation of the business and operations of the Transferor Companies into the Company, which complement the business of the Company and which will provide substantial impetus to growth, enable synergies, reduce operational costs, increase operational efficiencies and enable optimal utilization of various resources as a result of pooling of financial, managerial and technical resources, and technologies of both the Transferor Companies and the Company, thereby significantly contributing to business efficiency, future growth and maximizing shareholder value.
- (ii) The amalgamation of the Transferor Companies with and into the Company will lead to the integration of complementing businesses in one entity, the Company.
- (iii) Since the Transferor Company 1, Transferor Company 2 and Transferor Company 3 are wholly-owned subsidiaries of the Transferee Company, the merger of the aforementioned companies with and into the Company is likely to create more value for their respective stakeholders and shareholders, eliminate multiple companies in similar businesses and improve efficiencies of the consolidated business.
- (iv) The amalgamation of the Transferor Companies with and into the Company will lead to elimination of inter-company transactions and balances between the Transferor Companies and the Company and the consolidation of the fibre, fabric and garment businesses in one entity.

4. Recommendation of the Audit Committee

Having considered the Documents, the Audit Committee found the draft Scheme to be in the best interests of all the stakeholders in the Company and recommended the draft Scheme for favourable consideration by the Board of the Company, the shareholders of the Company, the BSE Limited, the National Stock Exchange of India Limited, the SEBI and the National Company Law Tribunal, Chandigarh Bench.

Date: August 12, 2019

Place: Ludhiana

Sanjay Gupta

Company Secretary

