



**REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF ADITYA BIRLA FASHION AND RETAIL LIMITED RECOMMENDING THE DRAFT SCHEME OF AMALGAMATION OF TCNS CLOTHING CO. LIMITED INTO AND WITH ADITYA BIRLA FASHION AND RETAIL LIMITED, AND EXPLAINING THE EFFECT THEREOF ON EACH CLASS OF SHAREHOLDERS (PROMOTER AND NON-PROMOTERS), KEY MANAGERIAL PERSONNEL, CREDITORS, EMPLOYEES AND HOLDERS OF NON-CONVERTIBLE DEBENTURES (NCDs) OF ADITYA BIRLA FASHION AND RETAIL LIMITED ADOPTED AT ITS MEETING HELD ON FRIDAY, MAY 5, 2023**

The following members of the Audit Committee were present at the Meeting:

1. Mr. Sunirmal Talukdar, Chairperson
2. Mr. Arun Adhikari
3. Mr. Nish Bhutani
4. Ms. Sukanya Kripalu

**1. Background and Rationale of the scheme**

1. The draft Scheme of Amalgamation by way of merger by absorption involving Aditya Birla Fashion and Retail Limited ("*Transferee Company*" or "*Company*") and TCNS Clothing Co. Limited ("*Transferor Company*") and their respective shareholders and Creditors (*hereinafter referred to as "Scheme"*), wherein the Transferor Company shall amalgamate into and with the Transferee Company in terms of Sections 230 to 232 and other applicable provisions, if any, of the Companies Act, 2013 ("*Act*") read with the rules made thereunder (including any statutory modification(s) or re-enactment(s) or other amendment(s) thereof for the time being in force), Securities and Exchange Board of India (Listing Obligation and Disclosure Requirements) Regulations, 2015 and other applicable laws including SEBI Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021, as amended from time to time ("*SEBI Circular*") and SEBI Circular No. SEBI/HO/DDHS/DDHS\_Div1/P/CIR/2022/0000000103 dated July 29, 2022 ("*SEBI Operational Circular*") was presented to the Committee at its meeting held on May 5, 2023, for its consideration and making recommendation to the Board of Directors of the Company.
2. In terms of SEBI Circular, a report from the Audit Committee of the Board of the Company, is required to be adopted by the Committee and recommended to the Board. Accordingly, this report of the Committee is prepared to comply with the aforesaid requirements.
3. While deliberating on the Scheme, the Committee, inter-alia, considered and took on record the following documents:
  - a. Draft Scheme duly initialled by the Company Secretary of the Company for the purpose of identification;
  - b. Draft Merger implementation agreement;

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- c. Valuation Report dated May 5, 2023, issued by Bansi S. Mehta & Co., Registered Valuer (IBBI Reg no. IBBI/RV/06/2019/10666) ("*Valuation Report*"), who in his report has recommended the share exchange ratio of 11 equity shares of the Company for every 6 equity shares of TCNS Clothing Co. Limited ("*Share Exchange Ratio*"), as set out in valuation report;
  - d. Fairness opinions dated May 5, 2023, issued by Axis Capital Limited, independent SEBI registered Category-I Merchant Banker providing fairness opinions on the recommended Share Exchange Ratio in the Valuation Report prepared by Bansi S. Mehta & Co. ("*Fairness Opinion*");
  - e. Auditor's Certificate by the Statutory Auditors of the Company i.e., Price Waterhouse & Co. Chartered Accountants LLP ("*Auditors Certificate*") in terms of Para (A)(5) of Part I of the SEBI Circular, Para (A)(6) of Part I of Annex XII-A of SEBI Operational Circular and proviso to sub-clause (j) of Section 232(3) of the Act to the effect that (a) the Scheme is in compliance with applicable Accounting Standards specified by the Central Government under Section 133 of the Act, and (b) the Company is capable of payment of interest/ repayment of principal on its listed non-convertible debentures and
  - f. Undertaking given by the Company confirming that approval of majority of public shareholders as prescribed under Paragraph (A)(10)(b) of Part I of the SEBI Circular is not applicable to the Scheme along with certificate of the Statutory Auditors of the Company, certifying the said undertaking.
4. The Scheme, amongst others, contemplates the following arrangements (capitalised terms used and not defined herein shall have the meaning ascribed to them in the Scheme):
- a. Amalgamation by way of merger by absorption of the Transferor Company into and with the Transferee Company in accordance with Sections 230 to 232 of the Act and other applicable laws.
  - b. Pursuant to the sanction of the Scheme by the Tribunals and upon the fulfilment of conditions for the Scheme, the Scheme shall become effective from the date on which the certified copies of the last of the Sanction Orders are filed with the RoC in accordance with Clause 33 of the Scheme (i.e. "*Effective Date*"). The '*Appointed Date*' for the Scheme shall be the Effective Date or such other date as may be approved by the Tribunals.
  - c. With effect from the Appointed Date and upon the Scheme becoming effective, the entire Undertaking (as defined in the Scheme) of the Transferor Company shall stand transferred to and vested in and/ or be deemed to have been and stand transferred to and vested in the Transferee Company to become the Undertaking of the Transferee Company, in the manner provided for in the Scheme, in accordance with Sections 230 to 232 of the Act, and other applicable laws.





- d. The entire paid-up share capital of the Transferor Company including the shares held by the Transferee Company in the Transferor Company shall stand cancelled in its entirety without any further act or deed.
  - e. Allotment of Equity shares of the Transferee Company to the shareholders of the Transferor Company (other than the Transferee Company) in accordance with the Share Exchange Ratio, as set out in valuation report. No shares shall be issued and allotted by the Transferee Company in respect of the shares held by the Company itself in the Transferor Company.
  - f. Transfer of the authorized share capital of the Transferor Company to the Transferee Company and consequential increase in the authorized share capital of the Transferee Company as provided in the Scheme.
  - g. The Transferor Company shall stand dissolved without being wound up.
5. The effectiveness of the Scheme is conditional upon fulfilment of the 'Conditions Precedent to effectiveness' as specified in the Scheme ("*said conditions*") which include:
- (i) pursuant to the provisions of the Competition Act, 2002 (including any statutory modification or re-enactment thereof) and the rules and regulations thereunder, the first of the CCI (or any appellate authority in India having appropriate jurisdiction) having, by the Long Stop Date, either:
    - (a) granted approval to the Scheme or
    - (b) been deemed to have granted approval to the Scheme through the expiration of time periods available for their investigation
  - (ii) acquisition of 51% (fifty-one percent) of the Expanded Share Capital (*as defined in the Scheme*) of the Transferor Company by the Transferee Company, pursuant to the open offer by the Transferee Company and the underlying transactions thereto, on or prior to the Long Stop Date.
  - (iii) the Stock Exchanges having issued their observation/ no-objection letters as required under the SEBI LODR Regulations read with the SEBI Scheme Circular and the SEBI Scheme Circular - Debt;
  - (iv) the Scheme being approved by the respective requisite majorities of the various classes of members (passed through postal ballot/ e-voting, as applicable) and creditors (where applicable) of the Transferor Company and the Transferee Company, as required under the Act and the SEBI Scheme Circular, subject to any dispensation that may be granted by the Tribunals;
  - (v) grant of Sanction Orders under the provisions of Sections 230 to 232 of the Act;
  - (vi) there not being any Governmental Order from any Governmental Authority (other than a competition and/or anti-trust authority) that has the effect of making the Scheme illegal or otherwise restraining or preventing its consummation.





Upon the fulfilment of the said conditions, the Scheme shall become effective from the Effective Date.

## **2. Need for the Scheme and Synergies of business of the entities involved in the Scheme**

- (i) Strengthening of organizational capabilities around operational and financial areas, driving scale benefits through leveraging resources;
- (ii) Enabling coverage of complementary markets and consumer segments in line with focused strategy of building a comprehensive apparel portfolio; entering newer markets and driving penetration;
- (iii) Creating revenue synergies through sharing of consumer understanding, market insights, channel models to ensure faster go to market and achieve faster growth with fewer resources;
- (iv) Driving synergy benefits around back-end such as procurement, logistics, supply chain, technology operations and shared services; driving optimal utilization of resources and building centers of excellence for a larger company;
- (v) Enhancing organizational capabilities arising from pooling of talent and human capital with diverse skill sets and experience in areas such as design, sourcing and consumer insights, providing strength to operate strongly in a highly fragmented market;
- (vi) Enabling more coordinated and comprehensive business management with clear focus on driving common goals around building best quality products, wide distribution, efficient operations, brand building; allowing for more efficient allocation of capital and resources for growth;
- (vii) Driving channel efficiencies by providing opportunity to cross-sell products across markets;
- (viii) Post Scheme, Transferee Company to become a platform for building category-led business and be better placed to adequately finance the growth prospects of the business and
- (ix) Driving cost synergies and reducing overlaps between businesses.

## **3. Effect of the Scheme on each class of shareholders (promoter shareholders and non-promoter shareholders), Key Managerial Personnel ("KMPs"), creditors and Non-Convertible Debentures ("NCDs") holders.**

The Valuation Report recommends the share exchange ratio of 11 equity shares of the Company for every 6 equity shares of TCNS Clothing Co. Limited, as set out in valuation report.

No special valuation difficulties were reported by the valuer.

### **a. Effect on the equity shareholders (promoter shareholders and. non-promoter shareholders)**

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The Scheme is subject to various conditions, including that the Company shall acquire 51% of the Expanded Share Capital (*as defined in the Scheme*) of the Transferor Company pursuant to the conditional open offer to be made under the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 and the underlying transactions thereto.

Further, as per the Scheme, the Transferee Company shall issue Equity shares as per the Share Exchange Ratio to the shareholders of Transferor Company (other than the Transferee Company), which shares shall rank *pari passu* in all respects with the existing equity shares of the Transferee Company. Hence, there shall be no change in numbers of shares held by promoter shareholders and non-promoter shareholders. However, the holding percentage to the total capital of the Company shall dilute to that extent of new equity shares issued to the shareholders of Transferor Company.

**b. Effect on the KMPs**

There shall be no effect of the Scheme on the KMPs of the Transferee Company. The effect of the Scheme on the interests of the KMPs and their relatives holding shares in the Company, is not different from the effect of the Scheme on other shareholders of the Company.

**c. Effect on the creditors**

Under the Scheme, no arrangement or compromise is being proposed with the creditors (secured or unsecured, including debenture holders) of the Company. The liability of the creditors of the Company, under the Scheme, is neither being reduced nor being extinguished.

**d. Effect on staff or employees**

Under the Scheme, no rights of the staff and employees (who are on payroll) of the Company are being affected. The services of the staff and employees of the Company shall continue on the same terms and conditions applicable prior to the proposed Scheme.

Further, upon the Scheme becoming effective, the employees of the Transferor Company ("*Employees*") will be deemed to have become employees of the Company pursuant to the Scheme with effect from the Effective Date.

All such Employees shall be deemed to have become employees of the Company, without any break in their service and on the basis of continuity of service, and the terms and





conditions of their employment with the Company, shall not be less favourable than those applicable to them with reference to their employment in the Transferor Company as on the Effective Date.

**e. Effect of the Scheme on holders of NCDs**

**i. Impact of the scheme on the holders of NCDs**

The holders of the NCDs in the Transferee Company shall continue to hold the NCDs in the Transferee Company even post the Scheme becoming effective on the same terms and conditions at which they were issued. Thus, the rights of the holders of the NCDs are in no manner affected by the Scheme becoming effective.

**ii. Safeguards for the protection of holders of NCDs**

The Scheme envisages the amalgamation of the Transferor Company which is a listed company into the Transferee Company. Under the Scheme, no arrangement or compromise is being proposed with the holders of the NCDs of the Company. The liability of the Company towards the NCD holders of the Company, is neither being reduced nor being extinguished under the Scheme. Further, the holders of the NCDs shall continue to hold the NCDs in the Transferee Company even post the Scheme becoming effective, on the same terms and conditions at which they were issued. The Scheme, therefore, has adequate safeguards for the protection of holders of NCDs.

**iii. Exit offer to the dissenting holders of NCDs, if any**

Since the holders of the NCDs in the Transferee Company shall continue to hold the NCDs in the Transferee Company even post the Scheme becoming effective on the same terms and conditions at which they were issued, the holders of the NCDs are not affected by the Scheme. Further, the liability of Company towards the NCD holders of the Company, is neither being reduced nor being extinguished under the Scheme. Therefore, the Scheme, does not envisage any exit offer to the dissenting holders of NCDs, if any.

Basis the details provided in paragraphs 4 (e) (i) to (ii) above, the Committee confirmed that the Scheme will not be detrimental to the interests of the holders of NCDs in the Company.

**4. Cost benefit analysis of the scheme**

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Although the Scheme involves certain costs such as transaction cost, implementation cost, regulatory fees, stamp duties, etc., the Scheme would entail the benefits specified in para 2 above.

#### 5. Valuation Report and Fairness Opinion

The Audit Committee reviewed the:

- a. Valuation Report and noted the methods of valuation and
- b. Fairness Opinions.

#### 6. Recommendations by the Audit Committee

The Audit Committee has perused the following documents:

- c. Draft Scheme duly initialled by the Company Secretary of the Company for the purpose of identification;
- d. Draft Merger implementation agreement;
- e. Valuation Report dated May 5, 2023, issued by Bansil S. Mehta & Co., Registered Valuer (IBBI Reg no. IBBI/RV/06/2019/10666) ("*Valuation Report*"), who in his report has recommended the share exchange ratio of 11 equity shares of the Company for every 6 equity shares of TCNS Clothing Co. Limited ("*Share Exchange Ratio*"), as set out in valuation report;
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- g. Undertaking to be given by the Company confirming that approval of majority of public shareholders as prescribed under Paragraph (A)(10)(b) of Part I of the SEBI Circular is not applicable to the Scheme along with certificate of the Statutory Auditors of the Company, certifying the said undertaking and
- h. Auditor's Certificate by the Statutory Auditors of the Company i.e., Price Waterhouse & Co. Chartered Accountants LLP ("*Auditors Certificate*") in terms of Para (A)(5) of Part I of the SEBI Circular, Para (A)(6) of Part I of Annex XII-A of SEBI Operational Circular and proviso to sub-clause (j) of Section 232(3) of the Act to the effect that (a) the Scheme is in compliance with applicable Accounting Standards specified by the Central Government under Section 133 of the Act, and (b) the Company is capable of payment of interest/repayment of principal on its listed non-convertible debentures.

The Audit Committee having considered and noted the above, recommends the draft Scheme to the Board, in its present form for favourable consideration by the Board, Stock Exchanges,



