



REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF ADITYA BIRLA FASHION AND RETAIL LIMITED RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT AMONG ADITYA BIRLA FASHION AND RETAIL LIMITED AND ADITYA BIRLA LIFESTYLE BRANDS LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS ADOPTED AT ITS MEETING HELD ON APRIL 19, 2024

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

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

1. Background

- (a) The draft Scheme of Arrangement among Aditya Birla Fashion and Retail Limited ("*Demerged Company*" or "*Company*") and Aditya Birla Lifestyle Brands Limited ("*Resulting Company*") and their respective shareholders and creditors (*hereinafter referred to as "Scheme"*), pursuant to Sections 230 to 232 and other applicable provisions, 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), Section 2(19AA) of Income Tax Act, 1961; Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and other applicable laws including SEBI Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023, as amended from time to time ("*SEBI Schemes Master Circular*") and SEBI Circular No. SEBI/HO/DDHS/DDHS_Div1/P/CIR/2022/0000000103 dated July 29, 2022 as amended from time to time ("*SEBI Debt Circular*") ("*Collectively referred as SEBI Circulars*") was presented to the Committee at its meeting held on April 19, 2024, for its consideration and making recommendation to the Board of Directors of the Company. Capitalised terms used and not defined herein shall have the meaning ascribed to them in the Scheme.
- (b) In terms of SEBI Schemes Master Circular, a report from the Audit Committee of the Board of the Company, recommending the draft Scheme is required taking into consideration *inter alia* the Share Entitlement Report, and commenting on the need for the Scheme, rationale of the Scheme, synergies of business of the entities involved in the Scheme, impact of the Scheme on the shareholders and cost benefit analysis of the Scheme. Accordingly, this report of the Committee is prepared to comply with the aforesaid requirements.
- (c) The Demerged Company is a listed public limited Company within the meaning of the Act. The equity shares of the Company are listed on BSE Limited ("*BSE*"), the National Stock Exchange of India Limited ("*NSE*"), (*Collectively referred to as the "Stock Exchanges"*) the redeemable, non-convertible debentures of Demerged Company are listed on BSE.

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- (d) The Resulting Company is public limited Company incorporated under the Act and is a wholly owned subsidiary of Demerged Company.
- (e) While deliberating on the Scheme, the Committee, *inter-alia*, considered and took on record the following documents:
- Draft Scheme duly initialled by the Company Secretary of the Company for the purpose of identification;
 - Report on Recommendation of Entitlement Ratio dated April 19, 2024, issued by Bansi S. Mehta Valuers LLP, Registered Valuer (IBBI Reg no. IBBI/RV-E/06/2022/172) ("*Share Entitlement Report*"), recommending the share entitlement ratio;
 - Fairness Opinion dated April 19, 2024, issued by Inga Ventures Private Limited, independent SEBI registered Category-I Merchant Banker providing its opinion on the share entitlement ratio in the Share Entitlement Report ("*Fairness Opinion*");
 - Auditor's Certificate by the Statutory Auditors of the Company i.e., Price Waterhouse & Co. Chartered Accountants LLP dated April 19, 2024 ("*Auditors Certificate*") in terms of SEBI Circulars and Section 232(3) of the Act certifying that the accounting treatment in the draft Scheme is in conformity with the accounting standards and.
 - Undertaking dated April 19, 2024 given by the Company confirming that approval of majority of public shareholders in terms of SEBI Schemes Master Circular, is not applicable to the Scheme along with certificate dated April 19, 2024 of the Statutory Auditors of the Company, certifying the said undertaking.

2. Salient Features of the Scheme

- (a) The Scheme *inter alia* provides the following:
- demerger, transfer and vesting of the Demerged Undertaking from the Demerged Company into the Resulting Company on a going concern basis, and issue of equity shares by the Resulting Company to the shareholders of the Demerged Company, in consideration thereof;
 - various other matters consequential or otherwise integrally connected therewith including changes in share capital and reduction and cancellation of pre-scheme share capital of the Resulting Company;
 - The Appointed Date is April 1, 2024 or such other date as may be approved by the Boards of the Demerged Company and the Resulting Company;
 - The Effective Date means the date which will be the first day of the month following the month in which the Parties mutually acknowledge in writing that all the conditions precedent of the Scheme has occurred or have been fulfilled, obtained or waived, as applicable, in accordance with the Scheme.

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(b) 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. The Stock Exchanges having issued their observation / no-objection letters as required under the SEBI LODR Regulations read with the SEBI Schemes Master Circular and the SEBI Debt Circular;
- II. This Scheme being approved by the respective requisite majorities of the various classes of (a) creditors (where applicable) of the Demerged Company and the Demerged Company Members; and (b) members and creditors (where applicable) of the Resulting Company, as required under the Act, subject to any dispensation of holding and convening meetings of members and creditors, that may be granted by the Tribunal;
- III. the fulfilment, satisfaction or waiver (as the case may be) of any approvals or conditions mutually agreed by the Parties as required for completion of transactions contemplated under this Scheme;
- IV. Sanction of the Scheme by the Tribunal under Sections 230 to 232 of the Act and receipt of certified copy of the Sanction Order; and
- V. The certified copy of the Sanction Order having been filed by the Parties with the Registrar of Companies.

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

3. Need for the Scheme and Rationale of the Scheme

- (a) ABFRL runs a diverse portfolio of fashion brands and retail formats with key business segments comprising of Madura Fashion and Lifestyle and Pantaloons, Ethnic portfolio along with other new growth platforms.
- (b) The MFL Business (*as defined in the Scheme*) has built a leadership position over a long period of time and has a proven track record of delivering consistent revenue growth, profitability, strong free cash flows and high return on capital. The Remaining Business of the Demerged Company (*as defined in the Scheme*) comprises portfolio of multiple businesses.
- (c) The Scheme is being proposed to separate MFL Business from the Remaining Business of the Demerged Company and demerge it into the Resulting Company. The proposed Scheme would be in the best interests of the Demerged Company, Resulting Company and, their respective shareholders, employees, creditors and other stakeholders for the below reasons:

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- i. The distinctive profile and established business model of the MFL Business makes it suitable to be housed in a separately listed entity, allowing sharper strategic focus in pursuit of its independent value creation trajectory;
- ii. Result in better and efficient control and management for the segregated businesses, operational rationalization, organization efficiency and optimum utilization of various resources;
- iii. The Scheme would unlock value for the overall-business portfolio through price-discovery of the individual entities for existing shareholders;
- iv. The Demerged Company will house multiple growth platforms across value and masstige retail, branded ethnic business, super premium and luxury retail formats and portfolio of digital brands and will chart its own growth journey;
- v. The Scheme could lead to the right operating architecture for both companies with sharper focus on their individual business strategies and clear capital allocation, in alignment with their respective value creation journeys; and
- vi. Separately listed companies to attract specific set of investors for their business profile, and consequently, encourage stronger capital market outcomes.

4. Synergies of business of the entities involved in the Scheme

The Committee noted that the Scheme provides for demerger of the MFL Business of the Demerged Company. The said demerger will entail the synergies and benefits specified in para 3 above.

5. Impact of the Scheme on the shareholders of the Company

The Audit Committee noted the following:

- a. The consideration for the demerger of the Demerged Undertaking shall be the issue by the Resulting Company of 1 (one) fully paid-up equity share of the Resulting Company having face value of Rs 10 (Rupees Ten) each for every 1 (one) fully paid-up equity share of Rs 10 (Rupees Ten) each of the Demerged Company ("*Resulting Company New Equity Shares*").
- b. Upon coming into effect of the Scheme and subject to the provisions of the Scheme, the Resulting Company shall, without any further application, act, deed, consent or instrument, issue and allot the Resulting Company New Equity Share(s) to the equity shareholders of the Demerged Company who hold fully paid-up equity shares of the

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Demerged Company and whose names are recorded in the register of members and/ or records of the depository on the Record Date.

- c. The Resulting Company shall apply for listing of its equity shares on the Stock Exchanges in terms of and in compliance of SEBI Schemes Master Circular and other relevant provisions as may be applicable. The Resulting Company New Equity Shares allotted by the Resulting Company, pursuant to the Scheme, shall remain frozen in the depository system till listing/ trading permission is given by the designated Stock Exchange.

6. Cost benefit analysis of the scheme

Although the Scheme involves certain costs such as transaction cost, implementation cost, regulatory fees, stamp duties, etc., the benefits under the Scheme as listed in Para 3 would be far more than such ancillary costs.

7. Recommendation by the Audit Committee

In the view of the above, Audit Committee after taking into consideration draft Scheme, Share Entitlement Report, Fairness Opinion, need for the Scheme, rationale of the Scheme, synergies of business of the entities involved in the Scheme, impact of the Scheme on the stakeholders, cost benefit analysis of the Scheme, and other relevant documents, recommends the draft Scheme to the Board, in its present form for favourable consideration by the Board, Stock Exchanges, National Company Law Tribunal, SEBI and such other regulatory authorities, as may be applicable.

For and on behalf of the Audit Committee of
Aditya Birla Fashion and Retail Limited

Sunirmal Talukdar
Chairperson, Audit Committee
DIN: 00920608



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Date: April 19, 2024

Place: Kolkata

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