

Regd. & Admn. Office : Focal Point, Ludhiana - 141 010. (INDIA)
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**REPORT OF THE AUDIT COMMITTEE OF NAHAR INDUSTRIAL ENTERPRISES LIMITED FOR
RECOMMENDING THE PROPOSED SCHEME OF ARRANGEMENT FOR AMALGAMATION OF
COTTON COUNTY RETAIL LIMITED WITH NAHAR INDUSTRIAL ENTERPRISES LIMITED AND
THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS**

Members Present:

Dr. Vijay Asdhir, Chairman
Sh. Dinesh Gogna, Member
Mrs. Manisha Gupta, Member
Dr. Roshan Lal Behl, Member

1) Background of the proposed Scheme of Arrangement

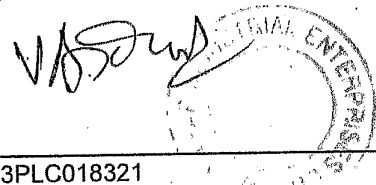
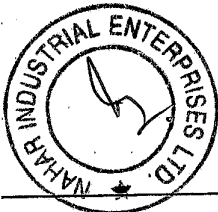
The scheme of Arrangement for Amalgamation ('Scheme') of Cotton County Retail Limited ('Transferor Company') with Nahar Industrial Enterprises Limited ('Transferee Company') and their respective shareholders and creditors as approved by the Board of Directors of the company at its meeting held on 20.03.2021 were filed with NSE and BSE on 12th April, 2021 in compliance of the then prevailing law as required under the SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 as amended from time to time, Regulation 37 of SEBI (LODR) Regulations, 2015 and other applicable provisions of the Companies Act, 2013. After waiting for the NOC from the stock exchanges for more than two months, SEBI directions were notified to the company by Stock Exchanges that financials of the companies to be considered for the valuation purposes should not be older than three months while filing the same with the Exchange and if the existing share exchange ratio changes due to revised valuation, the revised valuation report and draft scheme along with other documents be submitted.

Accordingly in order to comply with the directions of SEBI, audited financials of the Transferor Company for the period ended on 31.07.2021 is considered for arriving at the value per share under 'Net Asset Value' approach. For Transferee Company, value per share under market approach method is determined considering the share price observed on NSE as prescribed under the SEBI (ICDR) Regulations, 2018 read with SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 and Circular No. CFD/DIL1/CIR/P/2020/215 dated 3rd November, 2020.

Accordingly a meeting of Audit Committee was held on 27th August, 2021 and the proposed Scheme of Arrangement for Amalgamation ('Scheme') of Cotton County Retail Limited ('Transferor Company') with Nahar Industrial Enterprises Limited ('Transferee Company') and their respective shareholders and creditors was placed before the Audit Committee for its consideration and recommendation to the Board of Directors of the Company.

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The Scheme will be presented before the Tribunal(s) (as defined in the Scheme) under Section 230-232 and other applicable provisions of the Act, the Rules and regulations made





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there under, and will also be in compliance with Section 2(1B) of the Income Tax Act, 1961 and the Circular No. CFD/DIL3/CIR/2017/21 dated 10th March, 2017 issued by SEBI (read with Circular No. CFD/DIL1/CIR/P/2020/215 dated 3rd November, 2020).

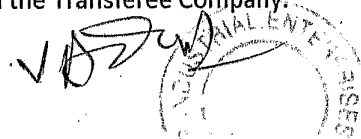
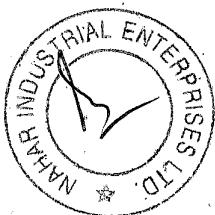
The report is made by the Audit Committee, after perusing inter-alia the following necessary documents:

- a) Proposed Scheme
- b) Valuation Report dated 27.08.2021 issued by Mr. Pankaj Bhalla, Chartered Accountant (ICAI M. No. 534281) & Registered Valuer (IBBI Registration No. BI/RV/06/2020/13265) for determination of share exchange ratio under the Scheme ("**Valuation Report**").
- c) Fairness Opinion dated 27.08.2021 of Master Capital Services Limited, a SEBI Registered Category-1 Merchant Banker, providing its opinion on the fairness of the valuation of shares ("**Fairness Opinion**").
- d) Certificate dated 27.08.2021 of M/s. K.R. Aggarwal & Associates, Chartered Accountants, Statutory Auditors of the Company in terms of Regulation 37 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 read with Para 5(a) of Annexure- I of the aforesaid SEBI Circular confirming that the accounting treatment contained in the proposed Scheme is in compliance with the SEBI (LODR) Regulations, 2015 and circulars issued there under and all the applicable Accounting Standards notified by the Central Government under the Companies Act, 2013.
- e) Audited financial statements of Transferee Company and Transferor Company for the Financial Year 2018-19, 2019-20 and 2020-21.
- f) Un-audited financial statements of Transferee Company for the quarter ended on 30.6.2021 and Audited financial statements of Transferor Company for the period ended on 31.7.2021.

2) Salient Features of the Proposed Scheme of Amalgamation

The Committee discussed and noted the Salient features of the Scheme as below:

- a) The Scheme provides for the amalgamation of Transferor Company with Transferee Company with an appointed date of 1st of April 2021 and is the date with effect from which the Scheme of Arrangement shall be applicable and effective for all purposes.
- b) 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 as a going concern including all assets and liabilities shall stand transferred to and vested in and/or be deemed to be transferred to and vested in the Transferee Company.



- c) Upon the Scheme of Arrangement coming into effect, the Transferee Company shall in consideration of the amalgamation issue and allot to the members of the Transferor Company, holding fully paid-up Equity Shares in the Transferor Company and whose names appear in the Register of Members of the Transferor Company on the Record Date, equity shares of the Transferee Company. The equity shares held by the Transferee Company either directly or through its Nominees, in the share capital of the Transferor Company as on the Effective Date shall stand cancelled as per provisions of law.

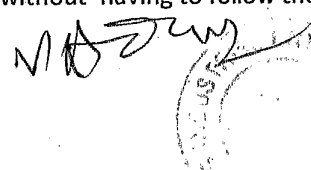
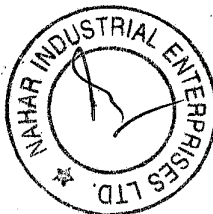
The equity shares shall be allotted to the members of Transferor Company, as per the ratio determined by the valuation experts, registered as a valuer namely Mr. Pankaj Bhalla, Chartered Accountants (ICAI M. No. 534281) and Registered Valuer (IBBI Registration No. BI/RV/06/2020/13265), as specified in section 247 of the Companies Act, 2013 read with applicable Rules. As per the valuation report, members of the Transferor Company shall be allotted 3 (Three) Equity shares in Transferee Company of Rs. 10 each credited as fully paid-up for every 10 (Ten) Equity shares of Rs. 10 each fully paid-up held by such member in Transferor Company.

- d) Transferor Company is holding 76,20,000- 5.5% Non-cumulative Non-convertible Redeemable Preference Shares (NCNCRPS) of Rs. 100/- each in Transferee Company. Upon the scheme becoming effective, in view of amalgamation of Transferor Company with Transferee Company all NCNCRPS held by the Transferor Company in Transferee Company shall be extinguished or shall be deemed to be extinguished by the Transferee Company without any further act, instrument or deed.

- (i) Upon the Scheme becoming effective, the subscribed and paid up preference share capital of Transferee Company to the extent held by the Transferor Company shall stand extinguished, without any payment of consideration or any other distribution to the Transferor Company pursuant to the amalgamation of Transferor Company with Transferee Company.

- (ii) Pursuant to the extinguishment of the Preference Shares as stated above, any arrears of dividend on the preference shares or any other liability, whether present or contingent, of the Transferee Company pertaining to the NCNCRPS shall upon the Scheme being effective, abate and there shall be no liability of the Transferee Company in respect of the NCNCRPS so extinguished / cancelled.

- (iii) The extinguishment of preference shares by the Transferee Company shall be effected as an integral part of this scheme itself, without having to follow the





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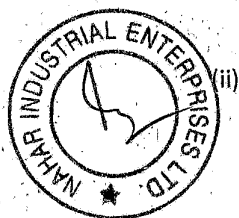
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process under section 66 of the Act separately and order of the Tribunal sanctioning the scheme of Arrangement under section 230-232 of the Act shall be deemed to be order under section 66 of the Act confirming the extinguishment of 76,20,000 - 5.5% Non-cumulative non-convertible redeemable preference shares held by the Transferor company in the Transferee Company. This Scheme as proposed and upon sanction by the NCLT shall constitute a single window clearance and shall be deemed to be sufficient for extinguishment of preference share capital.

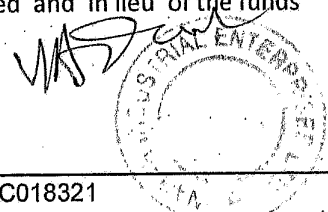
- e) Upon the Scheme coming into effect, Transferor Company will be dissolved without being wound up.

3) Need for amalgamation and Rationale of the scheme of arrangement

- (i) Both Transferor and Transferee Company belong to same promoter Group. The Transferor Company was engaged in the business of manufacturing and retailing of readymade garments. The Transferor Company used to procure its major raw material i.e. fabrics from Transferee Company. The retailing business of the Transferor company was doing well and the products of the company were widely accepted. The Transferor Company started incurring losses from FY ended 2012 due to stiff competition and non-viability of operations and slowly closed down its business of manufacturing and retailing of garments in FY 2019-20. Transferee Company is holding 47.66% equity shareholding in the Transferor Company and the balance equity shares of Transferor Company are being held by the Promoters of the Transferee Company. Since the business of manufacturing and retailing of garments of Transferor Company have been totally closed therefore, it has been thought proper to merge Transferor Company having surplus funds presently invested in the form of preference shares in Transferee Company. In this Scheme of amalgamation, the 47.66% of equity shareholding in the Transferor Company held by the Transferee Company would be cancelled without further application, act or deed. Upon the scheme becoming effective and as a consideration for the amalgamation of Transferor Company, the Transferee Company would issue equity shares to the equity shareholders of the Transferor Company in the manner stated in the scheme. This scheme would also enable the Transferee Company to finish its liabilities against the funds invested by Transferor Company in the form of preference shares. While conceiving this scheme it has also perused that there are no accumulated business losses of Transferor Company to be paid-off.



(ii) With proposed amalgamation the funds invested by Transferor Company would remain with Transferee Company, it would help the Transferee Company to face current and future challenges in a better way. The Transferee Company's holding of 47.66% in Transferor Company will be extinguished and in lieu of the funds



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invested by the Transferor Company only 52.34% will be acknowledged by the Transferee Company by issuing the fresh equity shares to that extent. The Net worth of Transferor Company as on 31.12.2020 is Rs. 80.40 Crores as against the total face value of equity share capital of Rs. 21.46 Crores. Thus from all angle it is a win-win situation for Transferee Company.

- (iii) Simplified management structures belong to better administration and reduction in costs from more focused operational efforts, reduction in multiplicity of legal and regulatory compliances and rationalization of administrative expenses. By virtue of proposed amalgamation of Transferor Company in Transferee Company, the operation of both companies shall be brought under a single control.
- (iv) The proposed arrangement for amalgamation would be advantageous and beneficial to the shareholders and other stakeholders of both companies. The Scheme would not be prejudicial to the interest of Creditors (secured and unsecured) of any of the companies.

4) Synergies of business of the entities involved in the scheme

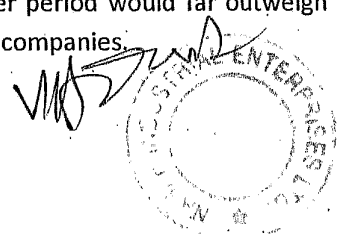
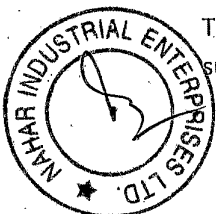
As explained in the Rationale hereinabove that both Transferor and Transferee Company belong to same promoter Group. The Transferor Company used to procure its major raw material i.e. fabrics from Transferee Company. The Transferor Company discontinued its business of retailing of garments in FY 2019-20 due to non-viability of operations. Thereafter, the Transferor Company is holding investment in the Transferee Company. With proposed amalgamation, the funds invested by Transferor Company would remain with Transferee Company, it would help the Transferee Company to face challenges in a better way. The amalgamated company is likely to achieve higher long term financial returns than could be achieved by the Companies individually.

5) Impact of the scheme on the shareholders

The Audit committee reviewed and considered the Valuation Report and the Fairness Opinion report placed before the Committee. Considering the benefits as discussed above, the proposed scheme of merger would be in the best interests of all stakeholders including the shareholders of Transferor and Transferee Companies.

6) Cost benefit analysis of the scheme

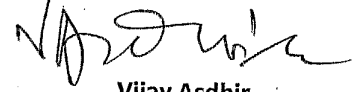
Though the Scheme would lead to incurring some costs towards implementation of the Scheme, however, the benefit of the Scheme of Arrangement for Amalgamation of Transferor Company with Transferee Company, over a longer period would far outweigh such cost for the stakeholders and Transferor and Transferee companies.



7) Recommendation of the Audit Committee

The Audit Committee, after perusal, deliberation and review of the provisions of the Proposed Scheme, Valuation Report, Fairness Opinion, Rationale of the Scheme, Impact of the Scheme on the shareholders, Cost benefit analysis and other documents listed above and considering the long term benefits as explained above, the audit committee unanimously recommend that the Scheme of Amalgamation as placed before the Committee be approved by the Board of Directors subject to such changes as it may deem fit and subject to such regulatory approvals as prescribed by the Companies Act, 2013 read with SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015.

**By Order of the Audit Committee of
NAHAR INDUSTRIAL ENTERPRISES LIMITED**



Vijay Asdhir

(DIN: 06671174)

(Chairman of the Audit Committee)

Place: Ludhiana
Date: 27.08.2021

