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CIN : L24116MH1989PLC052224



**REPORT OF AUDIT COMMITTEE OF VINATI ORGANICS LIMITED ("COMPANY")
RECOMMENDING THE AMENDMENT IN THE SCHEME OF AMALGAMATION OF VEERAL
ADDITIVES PRIVATE LIMITED WITH VINATI ORGANICS LIMITED AND THEIR RESPECTIVE
SHAREHOLDERS AT ITS MEETING HELD ON 08TH SEPTEMBER 2021 AT 3:00 PM**

MEMBERS

1. Mr. J.C. Laddha, Chairman
2. Mrs. Mona Bhide, Member
3. Mr. Adesh Kumar Gupta, Member

1. Background

- 1.1 In view of the recommendation received from the stock exchanges to obtain a fresh valuation report and fairness opinion, a meeting of Audit Committee of the Company was held on 08th September 2021 to inter-alia, consider and recommend the proposed amendment in the Scheme of Amalgamation of Veeral Additives Private Limited ('Transferor Company') with Vinati Organics Limited ('Transferee Company' or 'Company') and their respective shareholders ("the Scheme") under Section 230 to 232 and other applicable provisions, if any, of the Companies Act, 2013 read with the rules made thereunder, Section 2(1B), read with other applicable provisions of the Income-tax Act, 1961 (as amended) and other applicable laws including Securities and Exchange Board of India ('SEBI') (Listing Obligation and Disclosure Requirements) Regulations, 2015 and SEBI Circular No. CIR/CFD/DIL3/CIR/2017/21 dated 10th March 2017 ('SEBI Circular') on Schemes of Arrangement by Listed Entities and Relaxation under sub-rule (7) of rule 19 of the Securities Contracts (Regulation) Rules, 1957 which was originally approved by the Board of Directors of the Company in its meeting held on 02nd February 2021.
- 1.2 The Scheme was filed with stock exchanges along with necessary documents post sanction by the Board of Directors of the Company on 02nd February 2021 to obtain their no observation letter on the Scheme. However, stock exchanges have advised the Company that original valuation report and fairness opinion are dated 02nd February 2021, being older than 6 months before the receipt of the observation letter from SEBI and hence fresh valuation report and fairness opinion along with audit committee recommendation should be obtained by the Company for the said Scheme. Stock exchanges also advised that revised valuation report and fairness opinion should be submitted where the financials of the companies used for the valuation should not be older than 3 months while filing the same with the exchanges. In view of this, fresh valuation report and fairness opinion has been sought by the Company and amendment is proposed in the Scheme to this extent.
- 1.3 The Scheme provides for amalgamation of Transferor Company into and with the Company in consideration of issue of fully paid-up equity shares by the Company to the shareholders of Transferor Company; the consequent dissolution of the Transferor Company without winding up and various other matters consequential or integrally connected therewith with effect from opening of business hours on 1st April 2021 or such other date as the National Company Law Tribunal ('NCLT') may direct / allow.
- 1.4 The Scheme which shall be presented before the jurisdictional bench of NCLT under Section 230 to 232 and other applicable provisions of Companies Act, 2013 has been drawn up to be in compliance with Section 2(1B) and other applicable provisions of Income-tax Act, 1961 and other applicable laws including SEBI Regulations read with the SEBI Circular.

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- 1.5 In terms of the SEBI Circular, a report from Audit Committee is required recommending the draft Scheme, taking into consideration inter alia the Valuation Report, and commenting on rationale of the Scheme, impact of the Scheme on the shareholders, cost benefit analysis of the Scheme and synergies of business of the entities involved in the Scheme. This report of Audit Committee is made to comply with the requirements of the SEBI Circular.

2. Documents perused by the Audit Committee

- 2.1 The following documents were placed before the Audit Committee –

- a) Amended Scheme, duly initialed by the Chairman for the purpose of identification;
- b) Revised / fresh valuation report dated 08th September 2021 issued by Mr. Hitendra Ranka, Independent Chartered Accountant and a Registered Valuer, ('the Valuer') who in his report has recommended the following share exchange ratio

"14 equity shares of face value of INR 1/- each of Transferee Company shall be issued and allotted as fully paid up for every 713 equity shares of the face value of INR 10/- each fully paid up held in Transferor Company"

- c) Revised / fresh fairness opinion dated 08th September 2021 issued by M/s. Vivro Financial Services Private Limited, SEBI Registered (Category I) Merchant Banker providing the fairness opinion on the share exchange ratio recommended in the revised / fresh valuation report;
- d) Letter from M. M. Nissim & Co, Chartered Accountants, statutory auditors of the Company, confirming that the proposed amendment in the Scheme does not amend any accounting treatment prescribed in the Scheme and hence the earlier certificate dated 02nd February 2021 holds good;
- e) Other presentations, reports, documents, and information made to / furnished before the Audit Committee pertaining to the amended Scheme.

3. Rationale of the Proposed Scheme

The Audit Committee noted the rationale of the amended Scheme, which inter-alia is as follows:

- 3.1 Both the companies are engaged in the similar line of business. The amalgamation will ensure creation of a combined entity, hosting all products under the Transferee Company thereby resulting in on-time supplies, efficiency of management and maximizing value for the shareholders.
- 3.2 Both the companies believe that the financial, managerial and technical resources, personnel, capabilities, skills, expertise and technologies of each of the companies pooled in the merged entity, will lead to optimum use of infrastructure, cost reduction and efficiencies, productivity gains and logistic advantages and reduction of administrative and operational costs, thereby significantly contributing to the future growth and maximising shareholder value.
- 3.3 The proposed amalgamation would be in the best interest of the companies and their respective shareholders, employees, creditors, customers, and other stakeholders as the proposed amalgamation will yield advantages as set out, *inter alia*, below:
- a) realising benefits of greater synergies between their businesses, yield beneficial results and pool financial resources as well as managerial, technical

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- b) distribution and marketing resources of each other in the interest of maximizing value to their shareholders and the other stakeholders;
 - c) integrated value chain to enhance degree of vertical integration in the products segment;
 - d) greater efficiency in cash and debt management and unfettered access to cash flow generated by the combined business, which can be deployed more efficiently, to maximize shareholders value and better debt management;
 - e) pooling of resources, creating better synergies, optimal utilisation of resources, centralization of inventory and greater economies of scale
- 3.4 Simplification of management structure, elimination of duplication and multiplicity of compliance requirements, rationalization of administrative expenses, better administration and cost reduction (including reduction in administrative and other common costs);
- 3.5 Efficient tax planning at the combined entity level;
- 3.6 Adoption of improved safety, environment and sustainability practices owing to a centralized committee at combined level to provide focused approach towards safety, environment and sustainability practices resulting in overall improvement; and
- 3.7 Create value for the stakeholders including the respective shareholders, customers, lenders, and employees.

4. Salient Features of the Amended Scheme

The Audit Committee noted the salient features of the amended Scheme, which inter-alia are as under:

- 4.1 The amended Scheme provides for:
- a) amalgamation and consolidation of the business of the Transferor Company with the Company in accordance with Section 2(1B) and other applicable provisions of the Income-tax Act, 1961;
 - b) Issue and allotment of fully paid up equity shares to the shareholders of Transferor Company as on the Record Date in accordance with Part C of the Scheme;
 - c) Transfer of authorized share capital of the Transferor Company to the Company as provided in the amended Scheme and consequential increase in authorized share capital of the Company as provided for in the Scheme; and
 - d) Dissolution of the Transferor Company without winding up.

Pursuant to the provisions of Section 230 to 232 and other applicable provisions of Companies Act, 2013 read with the rules made thereunder and the applicable provisions of Income-tax Act, 1961 including Section 2(1B) thereof and other applicable laws.

- 4.2 Pursuant to the sanction of the amended Scheme by the relevant benches of the NCLT and satisfaction of other conditions specified in the Scheme, the Scheme shall become effective from Appointed Date, i.e. opening of business hours on 1st April 2021, or such other date as NCLT may direct / allow.

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- 4.3 Upon the coming into effect of the amended Scheme, the assets, liabilities and undertakings of the Transferor Company shall, without any further act, instrument or deed be transferred to and vested in or be deemed to have been transferred to and vested as a going concern in the Transferee Company pursuant to the applicable provisions of the Act on and from the Appointed Date.
- 4.4 The Transferee Company pursuant to the sanction of the Scheme by Hon'ble NCLT, will issue and allot its Equity Shares to the equity shareholders of Transferor Company whose names appear in the register of members of Transferor Company, on the Record Date in the following share exchange ratio:
- "14 equity shares of face value of INR 1/- each of Transferee Company shall be issued and allotted as fully paid up for every 713 equity shares of the face value of INR 10/- each fully paid up held in Transferor Company"
- 4.5 Upon the amended Scheme becoming effective, the Transferor Company shall, without any further act, deed, or thing, be dissolved without being wound-up.
- 4.6 Equity Shares issued by Transferee Company to the shareholders of Transferor Company pursuant to the Scheme would be listed on BSE Limited and National Stock Exchange of India Limited.
- 4.7 Each of the companies shall follow the method of accounting as per applicable accounting principles as prescribed under the Companies (Indian Accounting Standards) Rules, 2015 as notified under Section 133 of the Companies Act, 2013, as may be amended from time to time and relevant clarifications issued by Institute of Chartered Accountants of India, to the extent applicable.
- 4.8 The amended Scheme is required to be approved by the requisite majority in number and value of respective members and creditors, of each of the Amalgamating Companies as may be directed by the NCLT subject to any dispensation that may be granted by the relevant bench of the NCLT.
- 4.9 The amended Scheme shall become effective from the Appointed Date but shall be operative from the Effective Date.

5. Impact of the amended Scheme on shareholders

The amended Scheme is expected to create value for shareholders since entities engaged in the similar line of business are proposed to be amalgamated which will ensure reduction of administrative cost. Further, consolidating a promoter owned Transferor Company with the Company demonstrates the confidence of promoter of Transferee Company towards the growing business of Transferee Company. Furthermore, the under-construction manufacturing facility of Transferor Company will help the Transferee Company to cater to its customer base in a better manner and will result in achieving substantial growth in terms of being market leader in specialty chemical space.

6. Need for the amended Scheme of Arrangement

Rationale of the amended Scheme is already mentioned above.

7. Cost benefit analysis of the amended Scheme

The consideration proposed to be discharged by the Transferee Company represents fair value of the business of Transferor Company as substantiated by Revised / Fresh Valuation Report and Revised / Fresh Fairness Opinion obtained by the Company in relation to the

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valuation of the Transferor Company. Apart from this, certain administrative cost including regulatory fee etc. will be incurred to complete the Scheme. As against the cost incurred, Transferee Company will obtain access to under-construction manufacturing facility of Transferor Company which shall assist the Transferee Company in expanding its business horizons. Chemicals proposed to be manufactured by the manufacturing facility of Transferor Company are high margin products and shall contribute towards increasing the profitability of Transferee Company substantially.

8. Synergies of business of the entities involved in the amended Scheme

Both the Transferor and Transferee Company are engaged in similar line of business i.e. manufacturing and marketing of specialty chemicals. Consolidating the businesses of both the entities will result in creation of a combined entity, hosting all products under the Transferee Company. Further, the financial, managerial and technical resources, personnel, capabilities, skills, expertise and technologies of each of the companies pooled in the merged entity, will lead to optimum use of infrastructure, cost reduction and efficiencies, productivity gains and logistic advantages and reduction of administrative and operational costs, thereby significantly contributing to the future growth and maximising shareholder value.

9. Recommendation of the Audit Committee

Taking into consideration the amended Scheme and its rationale and benefits, Revised / Fresh Valuation Report, Revised / Fresh Fairness Opinion and other documents, as placed, the Audit Committee recommends the amended Scheme to the Board of Directors of the Company for its favorable consideration by the Board of Directors of the Company, the stock exchanges and SEBI.

By the order of Audit Committee

For and on behalf of Vinati Organics Limited


Chairman, Audit Committee
Date – 08th September 2021
Place – Mumbai