REPORT OF THE AUDIT COMMITTEE OF SRI LAKSHMI SARASWATHI TEXTILES (ARNI) LIMITEDRECOMMENDING THE SCHEME OF ARRANGEMENT BETWEEN SRI LAKSHMI SARASWATHI TEXTILES (ARNI) LIMITED ("THE DEMERGED COMPANY") AND SLST INDUSTRIES LIMITED ("THE RESULTANT COMPANY") AND THEIR RESPECTIVE SHAREHOLDERS ANDCREDITORS

Members Present:

Mr. J M Grover	Chairman of the Audit Committee
Mr. S Sridhara Rao	Member of the Audit Committee
Ms. Sivarani Jakkayan	Member of the Audit Committee

In Attendance:

Mr. Jitendra Kumar Pal	Company Secretary

1. BACKGROUND

1.1. A meeting of the Audit Committee ("**Committee**") of Sri Lakshmi Saraswathi Textiles (Arni) Limited was held on April 29, 2022 to consider and, if thought fit,recommend to the Board of Directors of the Company, the proposed Scheme of Arrangement between Sri Lakshmi Saraswathi Textiles (ARNI) Limited ("**the Demerged Company**") and SLST Industries Limited ("**the Resulting Company**") and their respective Shareholders and Creditors as per section 230 to 232 of the Companies Act, 2013.

1.2. The Demerged Company is a Public Limited Company and was incorporated on 2nd May 1964 under the Companies Act, 1956 in the State of Tamil Nadu. The Equity Shares of the Demerged Company are listed and traded on BSE Limited (BSE).

1.3. The Resulting Company is an Unlisted Public Limited Company limited by shares and was incorporated on 4th October 2018 under the Companies Act, 2013, in the State of Tamil Nadu. The Resulting Company is formed with intention to absorb the B Mill ("**Demerged Undertaking**") of the Demerged Company which has installed capacity of 35,088 Ring Spindles pursuant to Scheme of Arrangement ("**Demerger**").

1.4. The proposed Scheme provides for demerger of **B Mill**, a Spinning Mill with installed capacity of 35,088 Ring Spindles, manufacturing yarn for weaving and knitting situated at Raghunathapuram, Sevoor Village, PIN: 632316, Arni Taluk, Tiruvannamali District, Tamil Nadu (Demerged Undertaking) of the Company (Demerged Company) and inter-alia transfer and vest in the Resulting Company pursuant to Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 and rules and regulations made thereunder including any statutory modifications, re-enactments or amendments made thereto from time to time (the "**Scheme**") in accordance with SEBI circular No. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021 as amended from time to time ("**SEBI Circular**"). The Scheme further provides that **A Mill**, a Spinning Mill with installed capacity of 33,360 Ring Spindles manufacturing yarn for weaving and knitting situated at Raghunathapuram, Sevoor Village, PIN: 632316, Arni Taluk, Tiruvannamali District, Tamil Nadu (Remaining Undertaking) of the Company will remain with the Company (Demerged Company).

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1.5. The Scheme is subject to receipt of approvals of Board of Directors, shareholders and creditors of companies involved and approval of other regulatory authorities as may be required, including those of BSE, Securities and Exchange Board of India and the NCLT.

1.6. This report of the Committee is made in order to comply with the requirements the Master circular being circular no. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021("SEBI Circulars") and after considering the following documents that were placed before the Committee:

i. The Draft Scheme of Arrangement;

ii. The Certificate issued by M/s. S B S B and Associates, Chartered Accountants, the Statutory Auditors of the Company, pursuant to Part- I paragraph A.5 as prescribed in Annexure I of the SEBI Circular, confirming that the accounting treatment contained in the Scheme is in compliance with all the applicable accounting standard specified by the Central Government under section 133 of Companies Act, 2013 and other Generally accepted Accounting Principles;

iii. Valuation Report dated 29th April, 2022, issued by Mr. Dinesh Kumar Deora, (Registered Valuer- Securities or Financial Assets) IBBI Registration No.IBBI/RV/03/2019/12711(**"Registered Valuer"**)in relation to the shares to be issued by the Resulting Company to the Shareholders of the Demerged Company pursuant to the Scheme;

iv. Fairness Opinion Report dated 29th April, 2022 issued by Mark Corporate Advisors Private Limited, SEBI Registered Merchant Banker on the said Valuation Report;

v. Unaudited Financial Statements dated December 31, 2021 and Audited Financial Statements for the year ended March 31, 2021, March 31, 2020 and March 31, 2019 of the Demerged Company;

vi. Audited Financial Statements for the year ended March 31, 2021, March 31, 2020 and March 31, 2019 of the Resulting Company;

vii. Pre and Post Scheme Shareholding Pattern of the Demerged Company and the Resulting Company.

2. PROPOSED SCHEME OF ARRANGEMENT AND DEMERGER

2.1 The Salient features of the Scheme:

The Scheme of arrangement, inter- alia, provides the following:

i. The Demerged Company has the following Undertakings:

- **B Mill**: A Spinning Mill with installed capacity of 35,088 Ring Spindles, manufacturing yarn for weaving and knitting situated at Raghunathapuram, Sevoor Village, PIN: 632316, Arni Taluk, Tiruvannamali District, Tamil Nadu **(DEMERGED UNDERTAKING)** and

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- **A Mill**: A Spinning Mill with installed capacity of 33,360 Ring Spindles manufacturing yarn for weaving and knitting situated at Raghunathapuram, Sevoor Village, PIN: 632316, Arni Taluk, Tiruvannamali District, Tamil Nadu **(REMAINING UNDERTAKING).**

ii. The Scheme inter-alia provides for the transfer of B Mill of the Demerged Company and vesting of the same in the Resulting Company.

iii. The Appointed Date of the Scheme is 1st April, 2021 and Effective date is the later of the dates on which the certified copies of the Order(s) of the Court or Tribunal sanctioning this Scheme of Arrangement (Demerger) are filed with the Registrar of Companies, Tamil Nadu Chennai by the Demerged Company and the Resulting Company.

iv. **Split of Issued, Subscribed and Paid-up Equity Share Capital of the Demerged Company:**The Issued, Subscribed and Paid-up Equity Share Capital of the Demerged Company is Rs. 3,33,27,500/- (Rupees Three Crore Thirty Three Lakhs Twenty Seven Thousand and Five Hundred Only) divided into 33,32,750 (Thirty Three Lakh Thirty Two Thousand Seven Hundred and Fifty Only) Equity Shares of the Face Value of Rs. 10/- (Rupees Ten Only) each fully paid up. It is proposed to Split the Share Capital of the Company between the Demerged Company and the Resulting Company as follows:

- **Demerged Company:** Rs. 33,32,750/- (Rupees Thirty Three Lakhs Thirty Two Thousand Seven Hundred and Fifty Only) consisting of 33,32,750 Equity Shares of the Face Value of Re. 1/-(Rupees One Only) each fully paid up.

- **Resulting Company:** Rs. 2,99,94,750/- (Rupees Two Crores Ninety-Nine Lakhs Ninety-Four Thousand Seven Hundred and Fifty Only) consisting of 33,32,750 Equity Shares of the Face Value of Rs. 9/- (Rupees Nine Only) each fully paid up.

v. The Equity Shares of the Demerged Company shall continue to be listed on BSE Limited ("Stock Exchange") and the Demerged Company shall make necessary applications to BSE Limited, pursuant to the Scheme coming into effect, to note consequential changes due to reorganization of the share capital of the Demerged Company.

vi. Subsequent to the sanction of the Scheme, the Resulting Company will make an application for listing of its equity shares, including the New Equity Shares on the stock exchange in which the shares of the Demerged Company are listed, in pursuance to the relevant regulations including, the SEBI Master Circular no. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021 including any amendments, if any issued by SEBI in relation to application under sub-rule (7) of Rule 19 of the Securities Contract Regulation Rules, 1957 for relaxing strict enforcement of Clause (b) to sub-rule (2) of Rule 19 of the said rules.

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vii. Upon the coming into effect of this Scheme and in consideration of the transfer and vesting of the Demerged Undertaking of the Demerged Company in the Resulting Company in terms of Part-B of the Scheme, the Resulting Company shall, without any further act or deed, issue and allot to the equity shareholders of the Demerged Company, whose name is recorded in the register of members and records of the depositories as members of the Demerged Company, as on the Record Date, 1 (one) equity share of Rs. 9/- (Rupees Nine only) each of the Resulting Company credited as fully paid-up for every 1 (one) equity share of Re.1/- (Rupee One only) each held by such shareholder of the Demerged Company ("New Equity Shares").

2.2 Need and Rationale of the Scheme of Demerger/ Arrangement:

The Audit Committee noted the rationale and need of Scheme of Arrangement between Sri Lakshmi Saraswathi Textiles (Arni) Limited ("the **Demerged Company**") and SLST Industries Limited ("the **Resulting Company**") as under:

i. The Demerged Company is presently having installed capacity of 33,360 Ring Spindles in A Mill and 35,088 Ring Spindles in B Mill. A Mill is manufacturing all varieties of 100% cotton yarn of fine counts used for manufacture of fine varieties cloths and the products which are marketed mainly in up countries where power looms are operated in large scale and B Mill is manufacturing all varieties of cotton and polyester blended medium count yarn both for weaving and knitting, catering the domestic market such as Erode, Tirupur and Pallipalayam in Tamil Nadu and other markets in the State of Maharashtra. The Resulting Company is formed with intention to absorb the transfer, demerge the B Mill (Demerged Undertaking) of the Demerged Company which has installed capacity of 35,088 Ring Spindles pursuant to Scheme of arrangement (Demerger). The Resulting Company would be focusing on mainly manufacturing all varieties of cotton and polyester blended medium count yarn both for weaving and knitting, catering the domestic market. The Resulting Company will be concentrating on manufacturing of yarn suitable for manufacture of Suiting Cloth and Knitted Fabrics. Its products will continue to be marketed in the domestic market in Erode, Tirupur and Pallipalayam in Tamilnadu. Since the Resulting Company will be manufacturing yarns of different kind, garments, athletic wear, other products in the textile value chain and market them in different area and in order to manage both the Mills efficiently and in a focused manner and to improve the overall performance of both the Mills, the management of Demerged Company has considered it necessary to demerge, transfer and vest the B Mill of the Demerged Company, as a going concern into the Resulting Company.

ii. The Scheme if implemented will facilitate a separate and better management focus for both the Demerged Company and the Resulting Company on their respective units and thereby provide the distinct competencies required for achieving full potential, in order to meet the betterment of their respective customers, their needs, priorities and thereby eliminating any perceived conflict of interest among customers, develop their own network of alliances and talent models that are critical to their own success.

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iii. Further the proposed Scheme of Arrangement (Demerger) is in line with the current global industry practice to achieve size, scalability, integration, greater financial strength and flexibility thereby maximizing shareholders value and to achieve higher long-terms financial returns.

iv. The Scheme will contribute in furthering and fulfilling the objects of the companies concerned.

v. The Scheme will enable both the Demerged and Resulting Companies to carry on their respective businesses separately more conveniently and advantageously with an independent management set-up, greater focus, attention and specialization. The Scheme would also enable the promoters to achieve aligning the businesses in accordance to family interests. The Scheme will enable both the Companies to take advantage of the opportunities foreseen in their respective businesses and to assist in the exploitation and realization of the full potential in the respective businesses and implement schemes of modernization, technology upgradation, expansion, diversification etc.,

vi. After the implementation of the Scheme, there will be Inter-se Transfer amongst the Promoter/ Promoter Group.

vii. The Scheme will result in business synergies, synergies in operational process and creation of efficiencies by reducing time to market and benefiting customers as well as optimization of operation and capital expenditure.

viii. The Reorganization of the Equity Share Capital of the Demerged Company as proposed in this scheme would be utilized to adjust the accumulated losses of the Demerged Company, so as to enable the reflection of the true and accurate financial position of the Demerged Company. The Reorganization of the Share Capital would enable and facilitate the streamlining of the financial position of the Demerged Company and also permit invitation for further debt or equity infusion. The Reorganization of the Share Capital would not prejudice any of the stakeholders and would be in the best interest of the stakeholders.

ix. The Scheme is in interest of shareholders, creditors and there is no likelihood that any shareholder or creditor of either Demerged Company or Resulting Company would be prejudiced as a result of the Scheme of Arrangement and the Scheme will have beneficial results for the companies, their shareholders and employees and is also in general public interest.

2.3 Synergies of business of the entities involved in the Scheme: The synergies of business of the entities involved in the Scheme are set out in Point No. 2.2 above.

2.4 Impact of the scheme on the shareholders:
The proposed Scheme will enable both the Demerged Company and Resulting Company to carry on their respective businesses separately more conveniently and advantageously with an independent management set-up, greater focus, attention and specialization. The Scheme would also enable the promoters to achieve aligning the businesses in accordance to family interests.

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The Audit Committee also noted that the Scheme is subject to the majority approval of the public shareholders of the Company. The Audit Committee was of the opinion that the Scheme is not detrimental to the interests of the shareholders of the Company.

2.5 Cost benefit analysis of the Scheme:

The Committee has reviewed in detail the costs associated with regards to the implementation of demerger. Except the transaction cost, there are no additional costs involved for the proposed restructuring. However, the benefits of the Scheme over a longer period are expected to far outweigh such costs for the stakeholders of the Scheme entities.

3. RECOMMENDATION OF THE AUDIT COMMITTEE

Taking into consideration the documents stated herein above, the Audit Committee recommends the draft Scheme of Arrangement for favorable consideration by the Board of Directors of the Company, BSE Limited, the Securities and Exchange Board of India, NCLT and other applicable Regulatory authorities.

for **SRI LAKSHMI SARASWATHI TEXTILES (ARNI) LIMITED**

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(J M Grover)
Chairman of the Audit Committee

Date: 29th April, 2022
Place: Chennai