Kovilpatti Lakshmi Roller Flour Mills Limited
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REPORT OF AUDIT COMMITTEE OF KOVILPATTI LAKSHMI ROLLER FLOUR MILLS LIMITED RECOMMENDING THE AMALGAMATION OF RAYA FOODS PRIVATE LIMITED WITH THE COMPANY

Members:

1. Mr.K. Gnanasekaran – Chairman
2. Mr.Sudarsan Varadaraj – Member
3. Mr. Ashwin Chandran – Member

In Attendance:

1. Mr. Suresh Jagannathan – Executive Chairman
2. Mr. Sharath Jagannathan – Managing Director
3. Mr.J.Kanna – Chief Financial Officer (CFO)
4. Mr. S. Piramuthu – Company Secretary
5. Mr. A. Arun, M/s. Arun & Co. – Statutory Auditors
6. Mr.C S Sathyanarayanan, M/s. VKS Aiyer & Co. – Branch Auditors

1. Background:

The proposal to approve a Scheme of Amalgamation of Raya Foods Private Limited ("Transferor Company") with Kovilpatti Lakshmi Roller Flour Mills Limited ("Transferee Company") was placed before the Audit Committee at their meeting held on 22nd August 2022 for considering and providing its recommendation on the draft Scheme.

The said proposal involves merger of Raya Foods Private Limited with the Company with effect from the Appointed Date of 1st April 2022 or such other date as may be approved by the National Company Law Tribunal ('Tribunal') or any other competent authority, in accordance with the terms of the Scheme.

The Scheme is to be implemented in accordance with Sections 230 to 232 of the Companies Act, 2013 and other applicable provisions, if any, of the Companies Act, 2013, as may be applicable.

The equity shares of the Company are, presently, listed on BSE Limited ("BSE").

The report of the Audit Committee is made to comply with the requirements of SEBI Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021, (as amended from time to time).

2. List of documents reviewed by the Audit Committee:

The report is made by the Audit Committee after perusing amongst other things, the following documents:

a. The draft Scheme of Amalgamation of Raya Foods Private Limited with the Company.
b. The Valuation Report dated 22nd August 2022 obtained from Mr. Vardhman Doogar, Registered Valuer, New Delhi recommending the share exchange ratio
c. Fairness Opinion dated 22nd August 2022 obtained from M/s.Mefcom Capital Markets Limited, an Independent SEBI Registered Merchant Banker.
d. Certificate issued by the Statutory Auditors of the Company stating that the accounting treatment mentioned in the Scheme is in compliance with the relevant accounting standards.
e. Pricing Certificate issued by Mr. M. D. Selvaraj, FCS of MDS & Associates, Practising Company Secretaries, Coimbatore pursuant to Chapter V of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018
f. Audited Financial Statements of Raya Foods Private Limited and the Company as on 31st March 2022 and unaudited financial statements of Raya Foods Private Limited and the Company as on 30th June 2022

3. Need for the Scheme of Amalgamation

Raya Foods Private Limited ("Transferor Company") was incorporated on 22nd October 2021 under the Companies Act, 2013, in the State of Tamil Nadu and having its registered office at 8th Floor, Time Square, 62/4, A.T.T. Colony, Balasundaram Road, Coimbatore – 641018, Tamil Nadu, India. The Transferor Company is engaged in the business of flour milling manufacturing and selling of flour produced from wheat and all other food products.

The Transferor Company has a flour mill situated at Thirukkanur, Pondicherry which would augment the existing flour mills division of the Company resulting in increased capacity for the flour mill division.

4. **Rationale of the proposed Scheme of Amalgamation:**

The Scheme of Amalgamation is expected to yield the following benefits:

(i) Enable consolidation of flour mills business of both the companies into one entity which will facilitate economies of scale, focused growth, business synergies and better supervision of the business of the group.

(ii) Enable the Company to expand the footprint of the flour mills division by catering to the markets across India resulting in regional diversification.

(iii) Pooling of resources (including manpower, management, administration, financial and marketing resources) of both companies resulting in, synergies of operations and optimisation of logistics, resulting in more productive utilisation of said resources, savings in cost and operational efficiencies.

(iv) Enable optimisation of the capital allocation and availability of funds which can be deployed more efficiently to pursue growth opportunities.

(v) Strengthen the financial position resulting in increased leverage capacity of the merged entity.

(vi) Create long term value to the shareholders by unlocking value since the business and profits will accrue to a single entity.

(vii) Result in reduction in the multiplicity of legal and regulatory compliances.

5. **Salient Features of the proposed Scheme of Amalgamation:**

The salient features of the Scheme are as under:

- The Scheme provides for merger of Raya Foods Private Limited with the Company pursuant to Section 230 to 232 of the Companies Act, 2013.
- The Appointed Date for the Scheme is fixed as 1st April 2022.
- The Scheme provides for transfer of assets and liabilities pertaining to Raya Foods Private Limited on a 'going concern' basis to the Company.
- The Scheme is subject to the approval of SEBI, BSE Limited ("BSE"), and the Hon'ble National Company Law Tribunal, Chennai bench and such other Authorities as may be necessary in this regard.

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

The background and information of the Company and the Transferor Company is inter-alia as under:

a. The Transferor Company is engaged in the business of flour milling manufacturing and selling of flour produced from wheat and all other food products

b. The Transferee Company is engaged in the business of flour milling manufacturing and selling of flour produced from wheat and all other food products and is also engaged in the business of manufacture of ferrous castings.

c. Both the Companies are majorly into the same line of business. Upon amalgamation, the flour mill capacity of the Company would increase substantially pursuant to which the benefits and synergies mentioned in Point 4 above shall be derived.

7. Impact of the Scheme on the Shareholders

The proposed Scheme is in the interest of the shareholders on account of benefits enumerated in Point 4 above which may also potentially unlock long term value. Pursuant to the Scheme, the entire business and undertaking of the Transferor Company shall vest in the company, and accordingly, the shareholders of the Company will have a share in the returns arising from the enlarged business operations and asset base of the Company.

Further in consideration of the amalgamation of the Transferor Company with the Transferee Company, the shareholders of the Transferor Company will be allotted shares in the Company pursuant to the Share Exchange Ratio as stated in the proposed Scheme resulting in expansion of the capital base of the Company.

Considering the overall rationale and benefit of the Scheme, the Committee is of the view that the Scheme is in the best interest of all stakeholders including the shareholders of the Company. The Scheme will not adversely affect the rights or interest of any shareholder of the Company or creditors, in any manner whatsoever.

8. Cost Benefit Analysis of the Scheme

Considering the long-term benefits of the Scheme as discussed in point no. 4 above, the Scheme is beneficial to the shareholders, creditors and other stakeholders of both the Companies. The Company is expected to benefit by unlocking operational synergies due to consolidation of complementary operational resources and strengths of the two entities. The said amalgamation is intended to increase the capacity of the flour mills division to enable the Company to expand with a view to cater to the markets across India.

The Scheme would lead to incurring of some costs, such as transaction cost, implementation cost, regulatory fees, stamp duty, etc. towards its implementation. The Committee is of the opinion that the expected synergies and benefits in pursuance of the proposed Scheme would offset the cost involved in implementation of the Scheme.

9. Share Exchange Ratio:

Mr. Vardhman Doogar, Registered Valuer, New Delhi has recommended the following Share Exchange Ratio for the said amalgamation

"14 (Fourteen) equity shares of Rs.10/- each credited as fully paid in Kovilpatti Lakshmi Roller Flour Mills Limited (Transferee Company) for every 10 (Ten) equity shares of Rs.10/- each in Raya Foods Private Limited (Transferor Company)."

M/s.Mefcom Capital Markets Limited, an Independent SEBI Registered Merchant Banker, has examined the Valuation report issued by Mr. Vardhman Doogar, Registered Valuer, New Delhi and have issued their Fairness Opinion on the proposed Scheme.

Considering the above, the share exchange ratio as stated above is fair to the shareholders of the Company.

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Recommendations of the Audit Committee:

In view of the above, the Audit Committee, after taking into consideration the (a) draft Scheme of Amalgamation (b) the Valuation Report dated 22nd August 2022 obtained from Mr. Vardhman Doogar, Registered Valuer, New Delhi (c) the 'Fairness Opinion' dated 22nd August 2022 issued by M/s.Mefcom Capital Markets Limited, an Independent SEBI Registered Merchant Banker and other documents as placed before the Committee, hereby recommends the draft Scheme of Amalgamation of Raya Foods Private Limited ("Transferor Company") with Kovilpatti Lakshmi Roller Flour Mills Limited ("Transferee Company") for the favourable consideration and approval of the Board of Directors, BSE Limited ("BSE") and The Securities and Exchange Board of India ("SEBI").

For and on behalf of the Audit Committee of
Kovilpatti Lakshmi Roller Flour Mills Limited

K. GNANASEKARAN
DIN: 00133645
Chairman of Audit Committee

Date: 22nd August 2022
Place: Coimbatore