

PUNJAB ALKALIES & CHEMICALS LIMITED

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF PUNJAB ALKALIES & CHEMICALS LIMITED RECOMMENDING THE DRAFT COMPOSITE SCHEME OF AMALGAMATION FOR AMALGAMATION OF (I) PRAYAG CHEMICALS PRIVATE LIMITED ("TRANSFEROR COMPANY 1") AND (II) V.S. POLYMERS PRIVATE LIMITED ("TRANSFEROR COMPANY 2") WITH PUNJAB ALKALIES & CHEMICALS LIMITED ("TRANSFeree COMPANY") AND THEIR RESPECTIVE MEMBERS AND CREDITORS IN ITS MEETING HELD ON 02ND SEPTEMBER, 2021.

PRESENT:

1.	Shri Tilak Raj Bajalia	Chairman of the Committee
2.	Shri Ashok Goyal	Member
3.	Shri Kuldip Singh Suhag	Member
4.	Shri Naveen Chopra, Managing Director	Member

1. Background:

- 1.1. A meeting of the Audit Committee of Punjab Alkalies and Chemicals Limited was held on 02.09.2021 to consider and, if thought fit, to recommend to the Board of Directors of the Company, the proposed Composite Scheme of Amalgamation ("Scheme") of Prayag Chemicals Private Limited ("Transferor Company 1"/"PCPL") and V.S. Polymers Private Limited ("Transferor Company 2"/"VSPPL") with Punjab Alkalies & Chemicals Limited ("Transferee Company"/"PACL") and their respective shareholders and creditors under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013.
- 1.2. The Company is incorporated under the provisions of the Companies Act, 1956. The equity shares of the company are listed on BSE Limited.
- 1.3. The Audit Committee has, in its meeting held on 02.09.2021, considered the proposed Composite Scheme of Amalgamation, which involves, inter-alia, the following:
 - (a) amalgamation of (i) Prayag Chemicals Private Limited and (ii) V.S. Polymers Private Limited with Punjab Alkalies & Chemicals Limited and dissolution of said Transferor Companies without winding-up and consequent issuance of the Equity Shares of the Transferee Company to the Shareholders of the Transferor Companies.
 - (b) various other matters incidental, consequential and otherwise integrally connected therewith.
- 1.4. This Report of the Audit Committee is made to comply with the provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with Circular No. CFD/ DIL3/CIR/2017/21 dated March 10, 2017 issued by SEBI, as amended from time to time ("SEBI Circulars"), after considering the following document which were placed before the Committee:



- (a) Draft Composite Scheme of Amalgamation.
- (b) Certificate from Hari S. Associates, Statutory Auditor of the Company, confirming the accounting treatment mentioned in the scheme is in compliance with the applicable Ind AS notified under the Companies Act 2013, and other generally accepted accounting principles;
- (c) Equity Share Exchange Ratio Report dated September 02, 2021 issued by Mr. Abhinav Aggarwal (IBBI Registration No. IBBI/RV/06/2019/12564), ("**Registered Valuer**") inter-alia, recommending the fair share swap ratios (**hereinafter referred to as "Valuation Report" / "Share Swap Ratio Report"**) on the Scheme;
- (d) Fairness opinion dated September 02, 2021 issued by Shreni Shares Private Limited, SEBI Registered Category I Merchant Banker (SEBI Registration No. INM000012759) on the fair equity share exchange ratios recommended in the Valuation Report for the purpose of the Scheme;
- (e) Certificate dated September 02, 2021, issued by Krishna Kumar and Associates, Chartered Accountants certifying the minimum price as prescribed under Chapter V of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 for the purpose of the Scheme;
- (f) Audited financial statements of the Amalgamating Companies and the Amalgamated Company for the year ended March 31, 2021.

2. Proposed Scheme of Amalgamation:

2.1 Need and Rationale of the Scheme:

The Audit Committee noted the need and rationale of the Scheme of Amalgamation as provided in the draft Scheme is as under:

The management of the Amalgamating Companies is of the view that the chemical industry is poised for substantial growth in the near medium term opportunity which can be better capitalised as a consolidated entity with a bigger balance sheet, larger portfolio of products and a more streamlined structure. The management of the Companies further believes that the proposed consolidation will result into better efficiencies and economies in the post pandemic world and a single unified organisation is likely to have a faster growth trajectory. The consolidated organisation is also expected to create more value for all the stakeholders.

The management of the respective Companies are of the view that the amalgamation proposed in this Scheme is, in particular, expected to have following benefits:

- a) opportunity to increase the production of Caustic Soda by PACL, by having own facilities to use chlorine for manufacture of downstream products and therefore have a better control over the supply chain management for disposal of chlorine;



- b) consolidation of businesses under PACL providing an increased capability to offer a wider portfolio of products on a single platform to effectively address the issue of cyclical nature of business and market dynamics with a combined ability to integrate, innovate, customize and bundle the products of PACL, PCPL and VSPPL under a single platform. Its enhanced resource base and client relationships are likely to result in better business potential and prospects for the consolidated entity and its stakeholders;
- c) integrated value chain to enhance degree of vertical integration in the chemical business;
- d) consolidation of funds and resources will lead to optimisation of working capital utilisation and stronger financial leverage given the simplified capital structure, improved balance sheet and optimised management structure;
- e) consolidation of businesses under PACL will provide impetus to growth, enable synergies and productivity gains, increase operational efficiencies, centralisation of inventory, reduce operational costs and enable optimal utilisation of various resources as a result of pooling of financial, managerial, technical and human resources, thereby creating stronger base for future growth and value accretion for the stakeholders;
- f) elimination of the need for inter-company transactions between PACL, PCPL and VSPPL;
- g) amalgamation will result in simplification of the group and business structure and will enable to consolidated entity to have stronger presence in the market, more extensive network for deeper market penetration and enhancement of the overall customer satisfaction, engagement and retention; and
- h) create value for the stakeholders including the respective shareholders, customers, lenders and employees.

And above all, since PACL, PCPL and VSPPL are companies belonging to the same promoter group which are engaged in the business of manufacture of products from chemicals, the amalgamation will enable them to bring together their respective synergies in manufacturing of such various products in the same value chain thereby enhancing the value for all the stakeholders.

2.2 Salient Features of the Scheme:

- 2.2.1 The Scheme of Amalgamation seeks to amalgamate and consolidate the businesses of the Transferor Company-1 and the Transferor Company-2 into and with the Transferee Company and their respective shareholders and creditors pursuant to the provisions of Sections 230 to 232 of the Companies Act, 2013.
- 2.2.2 The Appointed Date for the purpose of Scheme means opening of business hours on April 01, 2021, or such other date as may be directed / allowed by the Competent Authority.



- 2.2.3 In consideration of the amalgamation of the Transferor Companies into and with the Transferee Company, the Transferee Company shall, without any further application, act or deed, issue and allot its equity shares to the shareholders of the Transferor Companies whose names are recorded in the Register of Members, including register and index of beneficial owners maintained by a depository under Section 11 of the Depositories Act, 1996, if any, on the Record Date (as defined in the Scheme) in the following ratio ("Share Exchange Ratio"):
- (i) For Prayag Chemicals Private Limited: "703 (Seven Hundred Three) fully paid-up equity shares of face value of Rs. 10 (Rupees Ten) each of the Transferee Company shall be issued and allotted as fully paid-up equity shares to the equity shareholders of the Transferor Company 1, for every 44 (Forty Four) fully paid-up equity shares of face value of Rs. 100 (Rupees One Hundred) each held by them in the Transferor Company 1".
 - (ii) For V.S. Polymers Private Limited: "298 (Two Hundred Ninety Eight) fully paid-up equity shares of face value of Rs. 10 (Rupees Ten) each of the Transferee Company shall be issued and allotted as fully paid-up equity shares to the equity shareholders of the Transferor Company 2, for every 155 (One Hundred Fifty Five) fully paid-up equity shares of face value of Rs. 10 (Rupees Ten) each held by them in the Transferor Company 2".
- 2.2.4 The equity shares proposed to be issued and allotted shall be got listed on BSE Limited.
- 2.2.5 The shares so allotted shall rank pari-passu in all respects with the then existing equity shares of the Transferee Company.
- 2.2.6 Amalgamation will result in reduction of shareholding of Shareholders (other than Promoters) from 68.65% to 65.90% and the shareholding of Promoters will increase from 31.35% to 34.10%.
- 2.2.7 The Promoters shall continue to remain Promoters even upon effectiveness of the Scheme.
- 2.2.8 The Scheme, in no way, is a Scheme of compromise or arrangement with the creditors of any of the companies and the Scheme is not affecting the rights of the creditors as all the creditors will be paid / satisfied in full, as and when their respective amounts fall due in the usual course of business, by the Transferee Company.
- 2.2.9 The Scheme is not a Scheme of Corporate Debt Restructuring as envisaged under Section 230(2)(c) of the Act.
- 2.2.10 The Scheme will not adversely affect the rights and interest of any Shareholder of the Company and Creditor in any manner whatsoever.
- 2.2.11 Effectiveness of the Scheme of Amalgamation is subject to the following approvals:
- (i) No Objection of the Draft Scheme of Amalgamation from the BSE Limited.



- (ii) Approval of the Draft Scheme of Amalgamation by the Shareholders and Creditors of the Transferor Companies and Transferee Company as directed by the National Company Law Tribunal (NCLT), Chandigarh Bench.
- (iii) Such other sanctions and approvals including sanction of the Central Government and any other Governmental Authority as may be required by Applicable Law in respect of the Scheme.
- (iv) the Scheme being approved by the public shareholders of the Transferee Company through e-voting in terms of para (I)(A)(9)(b) of Annexure I to the SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 and the Scheme shall be acted upon only if votes cast by the public shareholders in favour of the Scheme are more than the number of votes cast by the public shareholders against it;
- (v) Order of the National Company Law Tribunal approving the Scheme.

2.3 Synergies and Cost-benefit Analysis of the Scheme:

As the Transferee Company and Transferor Companies are companies belonging to the same promoter group which are engaged in the business of manufacture of products from chemicals, the amalgamation will enable them to bring together their respective synergies in manufacturing of such various products in the same value chain thereby enhancing the value for all the stakeholders.

The Scheme will result in consolidation of businesses of the Transferor Companies in the Transferee Company. Consolidation will be in the interest of stakeholders of Transferee Company and Transferor Companies to have an increased capability for running these businesses and pursue growth opportunities.

The Scheme will result in consolidation of financial resources, which will lead to optimisation of working capital utilisation and stronger financial leverage given the simplified capital structure, improved balance sheet and optimised management structure. In-house disposal of Chlorine will help the Transferee Company to have better control over the supply chain and will also enable it to increase its production capacities which may result in generation of higher cash flows from business operations in future.

Amalgamation will also result in simplification of the group and business structure and will enable to consolidated entity to have stronger presence in the market, more extensive network for deeper market penetration and enhancement of the overall customer satisfaction, engagement and retention. This in turn is expected to result in achieving synergies benefits under a single listed entity in the following manner:

- Pooling of resources in terms of manpower, administration and other common resources, thereby resulting in savings in operational and administrative costs.
- Achievement of operational synergies due to consolidation of complementary resources and strengths.
- An optimum and efficient utilization of available capital and other resources



Except the cost of implementation of the Scheme, there are no additional costs involved for the proposed Scheme. The Audit Committee is of the opinion that the expected synergies and benefits in pursuance of the proposed scheme would result in savings in operational costs and would offset the impact of costs of implementation of the Scheme.

2.4 Valuation methods evaluated for the Fair Equity Share Ratios:

As per the Valuation Report issued by Abhinav Aggarwal, Registered Valuer (the "Valuer"), he has considered all three approaches of Valuation, namely Market Approach, Income Approach and Asset Approach and based on the reasons recorded in his report given appropriate weightage to each such valuation approach considering the objective of this valuation. Further, he has also mentioned in his report that "The share exchange ratio is based on the methodologies explained herein earlier and various qualitative factors relevant to each Company and the business dynamics and growth potential of the businesses of the Companies, having regard to information, key underlying assumptions and limitations."

2.5 Analysis of provisions pertaining to related party transactions:

Prayag Chemicals Private Limited and V.S. Polymers Private Limited are the promoter group companies of Punjab Alkalies and Chemicals Limited. In light of the same, the transaction under the proposed Scheme may be considered as a related party transaction under the applicable provisions of the LODR regulations.

The consideration as set forth in the Scheme will be discharged on "arm's length basis". The fair equity share exchange ratios for the shares to be allotted to the shareholders of Transferor Companies is based on Valuation Report issued by Abhinav Aggarwal, Registered Valuer.

Shreni Shares Private Limited, SEBI registered Category-1 Merchant Banker, has also provided fairness opinion on the above-mentioned fair equity share exchange ratios. The fair equity share exchange ratio as recommended by the Registered Valuer in relation to the proposed Scheme is fair and reasonable, and not prejudicial to the interests of the minority shareholders. The aforementioned Valuation Report and Fairness Opinion have duly been considered by the Audit Committee.

Further, M/s Hari. S & Associates, Statutory Auditor of the Company have confirmed that the accounting treatment mentioned in the Scheme is in compliance with the applicable Ind AS notified under the Companies Act 2013, and other generally accepted accounting principles.

The Audit Committee was further apprised that in case of issuance of shares under a scheme by a listed company to shareholders of an unlisted company, the SEBI Circulars prescribe the listed company to follow the pricing provisions of Chapter V of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended from



time to time ("ICDR Regulations"). As the proposed Scheme would involve issuance of shares by PACL (being a listed Company) to shareholders of PCPL and VSPPL (being an unlisted companies), the fair equity share exchange ratio for amalgamation of PCPL with VSPPL has been determined in compliance with the above-mentioned pricing provisions of the ICDR Regulations.

Certificate issued by Krishna Kumar and Associates, Chartered Accountants certifying the minimum price as prescribed under Chapter V of ICDR Regulations have duly been considered by the Audit Committee.

2.6 Impact of the Scheme on the shareholders of the Company are as under:

- The proposed Scheme is in the interest of the shareholders on account of benefits as enumerated in para 2.3 above which may also potentially unlock long term value.
- The shareholders of the respective Transferor Companies as on the Record Date will be entitled to equity shares in the Company on the basis of the following the fair equity share exchange ratios determined by Registered Valuer in his Valuation Report submitted to this Committee.

Share Swap Ratio Report has been obtained by the Company from Abhinav Aggarwal, Registered Valuer (Securities and Financial Assets) registered with the Insolvency and Bankruptcy Board of India.

- Fairness opinion by SEBI Registered Category 1 Merchant Banker, Shreni Shares Private Limited on the above fair equity share exchange ratios have also been obtained by the Company.
- The equity shares will be listed on BSE
- The Scheme will not adversely affect the rights or interest of any shareholder of the Company or creditors, in any manner whatsoever.

3. Recommendation of the Audit Committee:

Taking into consideration of the draft Scheme, Share Swap Ratio Report, Fairness Opinion and other documents as placed, the Audit Committee recommends the draft Scheme of Amalgamation to the Board of Directors of the Company for their consideration and approval.

By order of the Audit Committee
For PUNJAB ALKALIES & CHEMICALS LIMITED


(RAJ RAJ BAJALIA)
Chairman of the Audit Committee
DIN: 02291892