

**REPORT OF THE AUDIT COMMITTEE OF TCNS CLOTHING CO. LIMITED RECOMMENDING THE DRAFT SCHEME OF AMALGAMATION BETWEEN TCNS CLOTHING CO. LIMITED ("TRANSFEROR COMPANY"/ "COMPANY") AND ADITYA BIRLA FASHION AND RETAIL LIMITED ("TRANSFeree COMPANY") AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS.**

**Members Present**

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|-------------------------|---|
| 1. Ms. Neeru Abrol      | : Chairperson (Non- Executive Independent Director) |
| 2. Ms. Sangeeta Talwar  | : Member (Non- Executive Independent Director)      |
| 3. Mr. Bhaskar Pramanik | : Member (Non- Executive Independent Director)      |

**In Attendance**

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|---------------------|--|
| 1. Mr. Amit Chand   | Chief Financial Officer                  |
| 2. Mr. Piyush Asija | Company Secretary and Compliance Officer |

**Invitees**

- |                           |  |
|---------------------------|--|
| 1. Mr. Inder Mohan Singh  | Representative on behalf of Shardul Amarchand Mangaldas and Co.      |
| 2. Ms. Sadia Khan         | Representative on behalf of Shardul Amarchand Mangaldas and Co.      |
| 3. Mr. Shamik Bagchi      | Representative on behalf of Credit Suisse Securities India Pvt. Ltd. |
| 4. Mr. Sameer Sood        | Representative on behalf of Credit Suisse Securities India Pvt. Ltd. |
| 5. Ms. Darshana Kadakia   | Representative on behalf of GT Valuation Advisors Private Limited    |
| 6. Mr. Arpit Thakkar      | Representative on behalf of GT Valuation Advisors Private Limited    |
| 7. Mr. Satpal Singh Arora | Partner, Deloitte Haskins and Sells LLP (Statutory Auditors)         |
| 8. Mr. Santosh Verma      | Representative on behalf of ICICI Securities Limited                 |

**1. Background of the proposed scheme:**

- 1.1 A draft Scheme of Amalgamation under section 230 to 232 and other applicable provisions, if any, of the Companies Act, 2013, ("the Act") including rules made thereunder, between TCNS Clothing Co. Limited (the 'Transferor Company' or 'the Company') and Aditya Birla Fashion and Retail Limited (the 'Transferee Company') and their respective shareholders and creditors ('Scheme' or 'the Scheme' or 'this Scheme') has been placed before the Audit Committee ('Audit Committee') for it to consider recommending the said draft Scheme to the Board of Directors. Words and expressions, used in capitalized form but not defined in this report, shall have the meaning ascribed to them in the Scheme.
- 1.2 The Scheme, *inter-alia* provides for the following:
- (i) The amalgamation of the Transferor Company into the Transferee Company, by way of merger by absorption and dissolution of the Transferor Company without winding up and the consequent issuance of the Merger Consideration Shares (*as defined under the Scheme*) in accordance with the Share Exchange Ratio (*as defined under the Scheme*) to the Eligible Shareholders (*as defined under the Scheme*), in respect of each share of the Transferor Company held by them in accordance with the Scheme; and;
- (ii) Various other matters incidental, consequential or otherwise integrally connected therewith, including the increase in the share capital of the Transferee Company.
- 1.3 The equity shares of the Transferor Company are listed on the National Stock Exchange of India Limited and BSE limited (collectively "Stock Exchanges"). Accordingly, the Transferor Company will file the said Scheme along with necessary information / documents with the Stock Exchanges.
- 1.4 The Scheme will also be presented before the Tribunals (*as defined under the Scheme*) in terms of the provisions of section 230 to 232 and other applicable provisions of the Act, the rules and regulations made thereunder, and will also be in compliance with applicable sections of the Income Tax Act, 1961,



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**TCNS Clothing Co. Limited**



Circular number SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021 issued by Securities and Exchange Board of India ("SEBI"), as amended from time to time, (the "SEBI Circular") and other applicable laws.

1.5 The report of the Audit Committee is made in order to comply with the requirements of the SEBI Circular read with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 after considering the following:

- (i) Draft Scheme, duly initialled by the Chairperson of the Audit Committee for the purpose of identification;
- (ii) Joint Valuation Report containing the Share Exchange Ratio dated May 04, 2023 as obtained from GT Valuation Advisors Private Limited, Registered Valuer - Securities or Financial Assets (Registration No. IBBI/ RV-E/05/2020/134) and Bansi S. Mehta Valuers LLP, Registered Valuer - Securities or Financial Assets Registration No. IBBI/RV - E/06/2022/172, Registered Valuers ("Valuation Report");
- (iii) Fairness Opinion dated May 05, 2023 as obtained from ICICI Securities Limited, a SEBI Registered Category I Merchant Banker ("Fairness Opinion"); and;
- (iv) A Draft Certificate from Deloitte Haskins and Sells LLP, the Statutory Auditors of the Transferor Company ("Statutory Auditors") confirming that, upon the Scheme coming into effect which is conditional upon and subject to Transferor Company and Transferee Company complying with the 'Conditions Precedent to Effectiveness' as stated in clause 31 of the Scheme, all assets and liabilities of the transferor company shall be transferred to the transferee company and the transferor company shall stand dissolved without being wound up. Accordingly, there is no accounting treatment prescribed under this Scheme which would have any impact or need to be reflected in the books of the Transferor Company.

## 2. Need and Rationale of the Scheme and synergies involved therein:

The Audit Committee took note of the rationale of the Scheme, which *inter-alia* is as follows:

- a. Strengthening of organizational capabilities around operational and financial areas, driving scale benefits through leveraging resources;
- b. Enabling coverage of complementary markets and consumer segments in line with focused strategy of building a comprehensive apparel portfolio; entering newer markets and driving penetration;
- c. Creating revenue synergies through sharing of consumer understanding, market insights, channel models to ensure faster go to market and achieve faster growth with fewer resources;
- d. Driving synergy benefits around back-end such as procurement, logistics, supply chain, technology operations and shared services; driving optimal utilization of resources and building centers of excellence for a larger company;
- e. Enhancing organizational capabilities arising from pooling of talent and human capital with diverse skill sets and experience in areas such as design, sourcing and consumer insights, providing strength to operate strongly in a highly fragmented market;
- f. Enabling more coordinated and comprehensive business management with clear focus on driving common goals around building best quality products, wide distribution, efficient operations, brand building; allowing for more efficient allocation of capital and resources for growth;
- g. Driving channel efficiencies by providing opportunity to cross-sell products across markets;
- h. Streamlining of legal, compliance and other statutory functions to allow a more coordinated approach towards governance for the businesses;



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- i. Post Scheme, Transferee Company to become a platform for building category-led business and be better placed to adequately finance the growth prospects of the business;
- j. Driving cost synergies and reducing overlaps between businesses.

**3. Valuation Report containing Share Exchange Ratio and confirmation on accounting treatment:-**

- (a) The Audit Committee took note of the Joint Valuation Report which, *inter-alia*, recommended the following Fair Share Exchange Ratio for the proposed amalgamation of the Transferor Company with and into the Transferee Company:

*"11 (Eleven) equity shares of ABFRL of INR 10/- each, fully paid-up for every 6 (Six) equity shares of TCNS of INR. 2/- each, fully paid-up."*

- (b) The Fairness Opinion confirmed that the Share Exchange Ratio, as recommended by the Registered Valuers is fair.
- (c) GT Valuation Advisors Private Limited, a Registered Valuer, appointed to determine the Share Exchange Ratio as set out in the Joint Valuation Report, has not expressed any difficulty while determining the said Share Exchange Ratio. Further, the Fairness Opinion also does not indicate any special valuation difficulties.
- (d) The draft certificate from Deloitte Haskins and Sells LLP stated that, upon the Scheme coming into effect which is conditional upon and subject to Transferor Company and Transferee Company complying with the 'Conditions Precedent to Effectiveness' as stated in clause 31 of the Scheme, all assets and liabilities of the transferor company shall be transferred to the transferee company and the transferor company shall stand dissolved without being wound up. Accordingly, there is no accounting treatment prescribed under this Scheme which would have any impact or need to be reflected in the books of the Transferor Company

**4. Salient Features of the Scheme**

The Audit Committee considered and took note of the salient features of Scheme, which *inter-alia* are as under:

- (a) The proposed "**Appointed Date**" of the Scheme shall be the Effective Date or such other date as may be approved by the Tribunals
- (b) "**Effective Date**" means the date on which the last of the certified copies of the Sanction Orders is filed with the Registrar of Companies. .
- (c) The Scheme shall be effective from the Appointed Date and shall be operative from the Effective Date.
- (d) The coming into effect of the Scheme is conditional upon and subject to:
  - (i) pursuant to the provisions of the Competition Act, 2002 (including any statutory modification or re-enactment thereof) and the rules and regulations thereunder, the first of the CCI (or any appellate authority in India having appropriate jurisdiction) having, by the Long Stop Date, either
    - a. granted approval to the Scheme; or
    - b. been deemed to have granted approval to the Scheme through the expiration of time periods available for their investigation;
  - (ii) acquisition of 51% (fifty-one percent) of the Expanded Share Capital of the Transferor Company by the Transferee Company, pursuant to the open offer by the Transferee Company and the underlying transactions thereto, on or prior to the Long Stop Date;
  - (iii) the Stock Exchanges having issued their observation / no-objection letters as required under the SEBI LODR Regulations read with the SEBI Scheme Circular and the SEBI Scheme Circular – Debt;



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**TCNS Clothing Co. Limited**



- (iv) this Scheme being approved by the respective requisite majorities of the various classes of members (passed through postal ballot / e-voting, as applicable) and creditors (where applicable) of the Transferor Company and the Transferee Company, as required under the Act and the SEBI Scheme Circular, subject to any dispensation of holding and convening meetings of members and creditors, that may be granted by the Tribunals;
- (v) the approval of the Scheme by the public shareholders of the Transferor Company in accordance with Para A.10 (a) and (b) of Part I of the SEBI Scheme Circular provided that the same shall be acted upon only if the votes cast by the public shareholders in favour of the Scheme are more than the votes by the public shareholders against it;
- (vi) such other conditions as may be mutually agreed between the Transferor Company and the Transferee Company;
- (vii) grant of Sanction Orders under the provisions of Sections 230 to 232 of the Act and receipt of certified copies of the Sanction Orders; and
- (viii) there not being any Governmental Order from any Governmental Authority (other than a competition and / or anti-trust authority) that has the effect of making the Amalgamation illegal or otherwise restraining or preventing its consummation.

#### 5. Upon effectiveness of the Scheme:

- (a) The Transferor Company will amalgamate into the Transferee Company, by way of merger by absorption and dissolution of the Transferor Company without winding up and the consequent issuance of the Merger Consideration Shares in accordance with the Share Exchange Ratio to the Eligible Shareholders, in respect of each share of the Transferor Company held by them in accordance with the Scheme; and;
- (b) Various other matters incidental, consequential or otherwise integrally connected therewith, including the increase in the share capital of the Transferee Company.

#### 6. Cost Benefit Analysis

Keeping in view the rationale and purpose of the amalgamation as mentioned in the Scheme, the Audit Committee is of the view that post-amalgamation, there would be synergies of business, cost reduction, increase in efficiencies and logistical advantages thereby contributing to enhancement of stakeholders value. While the Scheme would lead to incurring of certain costs however the long-term benefits of the Scheme will far outweigh the costs.

#### 7. Impact of the Scheme on the Shareholders of the Company:

The Audit Committee discussed and deliberated upon the rationale and expected benefits of the Scheme. The Audit Committee also noted that upon the Scheme becoming effective, pursuant to the transfer and vesting of the undertaking of the Transferor Company into the Transferee Company, and in consideration for the said transfer, the shareholders of the Transferor Company (except the Transferee Company) would be issued and allotted fully paid-up equity shares in the Transferee Company as per the Share Exchange Ratio. The equity shares to be issued by the Transferee Company to the shareholders of the Transferor Company shall rank pari-passu in all respects with the then existing equity shares of the Transferee Company.

In light of the above discussions, Valuation Report, Fairness Opinion and other documents presented before the Audit Committee, the Audit Committee was of the opinion that the proposed Scheme is likely to be beneficial to the Transferor Company and its shareholders and all other stakeholders at large and is not detrimental to the shareholders of the Transferor Company.



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**8. Recommendation of the Audit Committee:**

The Audit Committee, after due deliberation and due consideration of all terms of the draft Scheme, Joint Valuation Report, Fairness Opinion, Draft Certificate from Statutory Auditors, other presentations, reports, documents and information made to/furnished before the Audit Committee in relation to the said Scheme and the specific points mentioned above, and considering that Scheme is not detrimental to the shareholders of the Transferor Company, Audit Committee recommends the draft Scheme for favourable consideration by the Board.

**By order of the Audit Committee  
For and on behalf of TCNS Clothing Co. Limited**



**Neeru Abrol  
Chairperson - Audit Committee  
Non-Executive Independent Director  
DIN: 01279485**

**Date:** May 05, 2023  
**Place:** New Delhi



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