

Letter Ref no. : **DSPL/HFL-AVALON&ATC/02/2019-20****March 16,2020****FAIRNESS OPINION****STRICTLY PRIVATE & CONFIDENTIAL**

The Board of Directors Hindustan Foods Limited Office No.03, Phoenix Market City, LBS Road, Kurla, Mumbai – 400070	The Board of Directors Avalon Cosmetics Private Limited Gs-No. 195-1A, 1d, Appamaitkentatti, Sulur 641 402	The Board of Directors ATC Beverages Private. Ltd Plot 11 B&C KIADB Indl Area Karnataka 571 301
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Dear Sir(s),

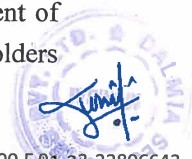
SUBJECT: FAIRNESS OPINION ON THE PROPOSED SCHEME OF ARRANGEMENT*Fairness Opinion for the proposed Scheme of Arrangement as per details as under:*

This Scheme of Arrangement and Amalgamation ('Scheme') is presented under Sections 230 – 232 and other applicable provisions of the Companies Act, 2013, rules and regulations thereunder, for:

- Demerger of Contract Manufacturing (Coimbatore) Business ('the Demerged Undertaking') of Avalon Cosmetics Private Limited (the 'Demerged Company' or 'ACPL') into Hindustan Foods Limited (the 'Resulting Company' or 'HFL').
- Merger of ATC Beverages Private Limited ('the Transferor Company' or 'ABPL') with Hindustan Foods Limited (the 'Transferee Company' or 'HFL')

The Demerged Company and Resulting Company are hereinafter referred as the "**Companies**".

Please refer to the engagement letter no. DSPL/HFL/01/2019-20 of March 05,2020 appointing Dalmia Securities Private Limited ["**DSPL**"], a SEBI Registered Category (I) Merchant Banker, to provide a fairness opinion in terms of the SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 ["**SEBI Circular**"] and other applicable SEBI Regulations for the proposed scheme of Arrangement of Demerged Company, Transferor Company and the Resulting Company and their respective shareholders



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NSDL IN300222. CDSL 14500. ARN 0284



pursuant to sections 230-232 and other applicable provisions of the Companies Act, 2013 (*hereinafter termed as "Scheme"*).

1. BACKGROUND

1.1 Hindustan Foods Limited

HFL, a company incorporated in 1984 under the Companies Act, 1956 of India. It is a listed company in BSE Limited and traded in BSE and NSE as well.

It is a principal contract manufacturer for a range of leading FMCG products. In 2013, Vanity Case Group bought a controlling stake in Hindustan Foods Ltd. from Dempo Group of Goa and since then the company has diversified across various FMCG categories with manufacturing competencies in extruded foods, cereals, frozen processed foods, farinaceous foods, fabric care, hair care, household insecticides, surface cleaning, food and beverages, aerosol, pump spray products, baby products, all type of mosquito coils, repellants, liquid vaporizers, other products related to foot care, foot wear and allied products. The shareholding pattern of HFL as on date is as under:

Category	Number of Shares Held	Shareholding (%)
Promoters and Promoter Group	1,32,75,093	62.62
Public	79,22,985	36.38
Total	211,98,078	100.00

1.2 Avalon Cosmetics Private Limited (ACPL)

ACPL, a company incorporated in 2003 under the companies Act, 1956 of India. The Coimbatore unit of Avalon Cosmetics Private Limited is manufacturer of malt based food products and energy drinks. The issued and subscribed equity capital of ACPL as on date is INR 1,01,87,090/-consisting of 10,18,709 shares of face value of INR 10 each. The shares of ACPL are not listed or traded in any of the recognised stock exchanges in India or abroad. Entire shares are closely held by the promoters and associates of ACPL.

1.3 ATC Beverages Private Ltd (ABPL OR ATC)

ATC, a company incorporated in 2004 under the companies Act, 1956 of India. The ATC Beverages Private Limited (ATC) operates with the main object of manufacture of beverages like soft drinks, juices

and energy drinks. The Company has a manufacturing plant situated in Plot No 11 -B & 11 – C in the Nanjangud Industrial Area comprised in Sy. No 184 & 185 Chamalapura & 169 Kallahally within the village limits of Kallahally, Hobli Kasaba Taluk Nanjangud District Mysore.

As on date ATC has fully paid up equity share capital of Rs. 20.54 cr comprising 2,05,42,933 Equity Shares of Rs.10/- each which are closely held. The company has 600,000 partly paid-up equity shares of face value Rs.10 of which there is a calls-in-arrears of Rs.4500,000. The company also has 87,21,263 – “9% Convertible Preference Shares” and 12,80,990- “11.5% Convertible Preference shares” (which are treated as on date as debt in the valuation). HFL holds 45.40% of the paid-up equity share capital of ATC.

2.0 Key Features of the Scheme and transaction overview

Based on information provided by the management of the Companies forming part of the Scheme and after analyzing the draft Scheme, the key feature of the scheme are as under:

(I) The demerger of Contract Manufacturing (Coimbatore) Business of ACPL into HFL would result in the following benefits:-

- Concentrated management focus on the businesses in a more professional manner and to create a more competitive business both in scale and operations. The Resulting Company would develop combined long-term corporate strategies and financial policies, thus enabling better management and accelerated growth of the business.
- Operational rationalization, organizational efficiency and optimal utilization of various resources due to pooling of management, administrative and technical skills of various resources of both the companies, better administration, and cost reduction, including reduction in managerial, administrative and other common costs;
- Providing better flexibility in accessing capital, focused strategy and specialization for sustained growth; and
- Creation of value for shareholders and various stakeholders;

(II) The amalgamation of ABPL into HFL would result in the following benefits: -

- Enhancement of net worth of the combined business to capitalize on future growth potential since both entities are engaged in similar areas of business;
- Achieve optimal utilization of resources, better administration and cost reduction;
- Expansion and diversification of business, foraying into new product line and broadening the customer base;
- Creating synergies in operational process and enhancing competitive strength and
- Creating value for various stakeholders and shareholder.

3.SCOPE OF ENGAGEMENT

The Companies have appointed DSPL to issue fairness opinion for the proposed Scheme in terms of the SEBI Circular and applicable SEBI Regulations. DSPL is issuing this fairness opinion (“Fairness Opinion”) in capacity of Independent Merchant Banker based on the valuation report dated March 16,2020, containing recommendation of fair equity share exchange/ swap ratio for the proposed Scheme

[**“Valuation Report”**], issued by Mr. Bhavesh Mansukhbhai Rathod, a Registered Valuer with Reg. No. IBBI/RV/06/2019/10708.

4. SOURCES OF INFORMATION

DSPL has relied on the following information for issuing the Fairness Opinion for the purpose of the proposed Scheme:

- i. Draft Scheme of Arrangement under Sections 230-232 and other applicable provisions of the Companies Act, 2013, with regard to the proposed the proposed Scheme.
- ii. Valuation Report dated March 16, 2020 recommending fair equity share exchange/ swap ratio for the proposed Scheme issued by Mr. Bhavesh Mansukhbhai Rathod, the Registered Valuer.
- iii. Copy of Memorandum and Article of Association of the HFL, ACPL and ATC
- iv. Shareholding Pattern of ACPL, ATC and HFL as on the date of valuation
- v. Audited Financial Statements of HFL, ACPL and ATC for the year ended March 31, 2019.
- vi. Management certified projected financial statements comprising of Balance Sheet, Statement of Profit and Loss and Cash Flow Statement of the companies for which Registered Valuer has furnished the Valuation Reports, for explicit periods, as provided to us by the Management;
- vii. Such other information, documents, data, reports, discussions and verbal & written explanations from the Demerged Company, Transferor Company and Resulting Company as well as advisors for proposed Scheme, information available public domain & websites as were considered relevant for the purpose of the Fairness Opinion.

5. EXCLUSIONS AND LIMITATIONS

The Fairness Opinion is subject to the scope limitations detailed hereinafter.

- 5.1 The Fairness Opinion is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein. The Fairness Opinion is divided into chapters and sub section only for the purpose of reading convenience. Any partial reading of this Fairness Opinion may lead to inferences, which may be divergence with the conclusion and opinion based on the entirety of this Fairness Opinion.
- 5.2 In the course of the present exercise, DSPL were provided with both written and verbal information, including financial data. The Fairness Opinion issued by DSPL based on the basis of information available in public domain and sources believed to be reliable and information provided by the companies forming part of the Scheme and the Valuer for the sole purpose of to facilitate the Companies to comply with the requirements of the SEBI Circulars and applicable SEBI Regulations and shall not be valid for any other purpose or as at any other date.
- 5.3 DSPL has relied upon the historical financials, projection and the information and representations furnished without carrying out any audit or other tests to verify its accuracy with limited independent

appraisal. Also, DSPL has been given to understand by the managements of the Companies forming part of the Scheme that they have not omitted any relevant and material factors. Accordingly, DSPL does not express any opinion or offer any form of assurance regarding its accuracy and completeness. DSPL assumes no responsibility whatsoever for any errors in the above information furnished by the companies and/or the Valuer and their impact on the present exercise. DSPL has not conducted any independent valuation or appraisal of any of the assets or liabilities of the Companies. In particular, DSPL does not express opinion on value of assets of the Companies forming part of the Scheme and/or their subsidiary, holding, affiliates, whether at current price or future price. No investigation of the Companies claim to the title of assets or property owned by the companies has been made for the purpose of this fairness opinion. With regard to the Companies claim, DSPL has relied solely on representation, whether verbal or otherwise made, by the management for purpose of this Fairness Opinion. Therefore no responsibility whatsoever is assumed for matters of legal nature. Further, DSPL has not evaluated solvency or fair value of the Companies forming part of the Scheme under any law relating bankruptcy, insolvency or similar matter.

- 5.4 DSPL work does not constitute an audit, due diligence or verification of historical financials including the working results of the Companies or their business referred to in this Fairness Opinion. Accordingly, DSPL is unable to and does not express an opinion on the accuracy of any financial information referred to in this Fairness Opinion.
- 5.5 DSPL assumes with the consent of the Companies, that the Scheme will be in compliance with all applicable law and other requirements and will be implemented on terms described in the Draft Scheme, without further modifications of any material terms and conditions, and that in course of obtaining necessary regulatory or third party approvals for the Scheme, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on the companies forming part of the Scheme and/or its relevant subsidiaries/affiliates and their respective shareholders. DSPL assumes, at the direction of the companies, that the final Scheme will not differ in any material respect from the Draft Scheme. DSPL understands from the companies' management that the Scheme will be given effect in totality and not in part.
- 5.6 The Fairness Opinion of DSPL does not express any opinion whatsoever and make recommendation at all to the companies forming part of the Scheme underlying decision to affect the proposed Scheme or as to how the holders of equity shares or secured or unsecured creditors of the companies should vote at their respective meetings held in connection with the proposed Scheme. DSPL does not express and should not be deemed to have expressed any views on any other term of the

proposed Scheme. DSPL also express no opinion and accordingly accept no responsibility or as to the prices at which the equity shares of HFL will trade following the announcement of the proposed Scheme or as to the financial performance of HFL following the consummation of the proposed Scheme.

- 5.7 The Fairness Opinion should not be construed as certifying the compliance of the proposed transfer with the provisions of any law including companies, taxation and capital market related laws or as regards any legal implications or issues arising thereon.
- 5.8 The Fairness Opinion is specific to the date of this report. An exercise of this nature involves consideration of various factors. This Fairness Opinion is issued on the understanding that the companies forming part of the Scheme have drawn attention to all the matters, which they are aware of concerning the financial position of the companies, their businesses, and any other matter, which may have an impact on the Fairness Opinion for the proposed merger, including any significant changes that have taken place or are likely to take place in the financial position of the companies or their businesses subsequent to the proposed appointed date for the proposed Scheme. DSPL has no responsibility to update this Fairness Opinion for events and circumstances occurring after the date of this Fairness Opinion. DSPL assumes no responsibility for updating or revising the Fairness Opinion based on circumstances or events occurring after the date hereof.
- 5.9 In past, DSPL may have provided and currently or in the future provide, investment banking services to the companies forming part of the Scheme under the scheme and/or any holding or subsidiaries or affiliates and their respective shareholders, for which DSPL has received or may receive customary fees. DSPL engagement as fairness opinion provider is independent of our other business relationship, which may have the companies under the scheme and/or any holding or subsidiaries or affiliates. In addition in ordinary course of their respective business, after complying with applicable SEBI Regulations, DSPL or its affiliates may actively trade in securities of the companies under the scheme and/or any holding or subsidiaries or affiliates and their respective shareholders for their own accounts and account of their customers and accordingly may at a time hold position in such securities. DSPL engagement and opinion only to fulfill the requirement of the SEBI Circular and not for other purposes. Neither DSPL nor any of its affiliates, partners, directors, shareholders, managers, employees or agents make any representation or warranty, expressed or implied, as to the information and documents provided, based on which the Fairness Opinion has been issued.

- 5.10 This Fairness Opinion issued by DSPL without regard to specific objectivities, suitability, financial situation and need of any particular person and does not constitute any recommendation, and should not be construed as offer for to sell or the solicitation of an offer to buy, purchase or subscribe to any securities mentioned herein. This report has not been or may not be approved by any statutory or regulatory authority in India or by any Stock Exchange in India. This Fairness Opinion may not be all inclusive and may not contain all information that the recipient may consider material.
- 5.11 The Fairness Opinion and information contained therein or any part of it does not constitute or purport to constitute investment advice in publicly accessible media and should not be printed, reproduced, transmitted, sold distributed or published by recipient without prior written approval of DSPL. The distribution/taking/sending/dispatching of this document in certain foreign jurisdiction may be restricted by law, and person into whose this document comes should inform themselves about, and observe, any such restriction.
- 5.12 This Fairness Opinion has been issued for the sole purpose to facilitate the Companies to comply with SEBI Circular and other applicable SEBI Regulations and it shall not be valid for any other purpose. Neither this Fairness Opinion nor the information contained herein, may be reproduced passed to any person or used for any purpose other than stated above, without prior written approval of DSPL.
- 5.13 The Companies have been provided with opportunity to review the draft as part of standard practice to make factual inaccuracy/omissions are avoided in the Fairness Opinion.
- 5.14 The fee for the services is not contingent upon the result of proposed Scheme. This Fairness Opinion is subject to law of India.

6. OPINION & CONCLUSION

As per the Valuation Report, the share exchange / swap ratio has been arrived at based on relative equity valuation of

- (i) the demerged entity (Coimbatore unit of ACPL) and HFL and
- (ii) the Transferor company (ATC) and HFL

based on methodologies explained in the Valuation Report and various qualitative factors relevant to Companies and the business dynamics and growth potential of the business of each Company having regard to the information received, key underlying assumptions and limitations.

It is observed that the Discounted cash flow method has been adopted for the valuation of the shares of HFL despite them being listed are listed on BSE and traded in both BSE and NSE, as these shares

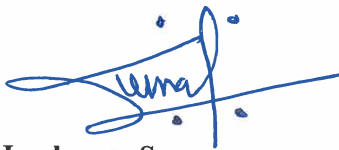
are observed to be in-frequently traded in the respective stock exchanges individually as also jointly. As per the Valuer, there are no comparable companies in the market to benchmark the demerged unit (Coimbatore Unit) of ACPL and that of ATC.

Accordingly, the Valuation has been conducted by the valuer based on Discounted Cash flow approach for HFL, ACPL and ATC respectively to arrive at the swap ratio. We are of the view that the method adopted is acceptable and provides equitable justice to shareholders of each company.

In light of the forgoing and subject to the caveats as detailed hereinbefore, DSPL hereby certifies the share exchange / swap ratio as given below, recommended by the Valuer, for the proposed Scheme of arrangement of demerger of Coimbatore unit of ACPL into HFL and merger of ATC into HFL would be fair and reasonable:

For equity shareholders of Avalon Cosmetics Private Limited	“1 Equity Share of HFL for 0.755 equity shares of ACPL held by the equity shareholders of ACPL, against the demerger of Coimbatore business unit of ACPL”
For Equity shareholders and Convertible Preference shareholders of ATC Beverages Pvt. Ltd.	“1 Equity Share of HFL for 16,228 equity shares of ATC held by the equity shareholder of ATC. For the purpose of this partly paid up shares will not be considered as the calls have not been paid up fully and the value of per equity share is less than the unpaid value of such calls and 1 Equity Share of HFL for 16,228 convertible preference shares (CPS) of ATC held by the CPS holders of ATC”

For *Dalmia Securities Private Limited*




Jeyakumar S

COO- Investment Banking

SEBI Registration Number INM000011476

Date: March 16, 2020

Place: Mumbai