HINDUSTAN FOODS LIMITED
A Vanity Case Group Company
A Goverment Recognised Two Star Export House
Registered Office: Office No.3, Level-2, Centrium, Phoenix Market City,
15, Lal Bahadur Shastri Road, Kurla (West), Mumbai, Maharashtra, India. 400 070.
Email: business@thevanitycase.com Website: www.hindustanfoodslimited.com
Tel. No. +91-22-69801700 / 01 CIN: L15139MH1984PLC316003

REPORT OF THE AUDIT COMMITTEE ("COMMITTEE") OF THE BOARD OF DIRECTORS OF HINDUSTAN FOODS LIMITED RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN AVALON COSMETICS PRIVATE LIMITED AND VANITY CASE INDIA PRIVATE LIMITED AND HINDUSTAN FOODS LIMITED AND THEIR RESPECTIVE SHAREHOLDERS.

This Report of the Audit Committee is considered and approved by the Committee in its meeting held on September 24, 2024.

Members Present

Mr. Shashi K Kalathil	-	Chairman
Ms. Honey Vazirani	-	Member
Ms. Amruta Adukia	-	Member

In Attendance

Mr. Bankim Purohit	-	Company Secretary & Legal Head

Invitees

Mr Sameer Kothari	-	Managing Director
Mr Ganesh Argekar	-	Executive Director
Mr Mayank Samdani	-	Group Chief Financial Officer

1. **Background**

The Proposal to approve a Scheme of Arrangement between Avalon Cosmetics Private Limited ("the Demerged Company" or "ACPL") and Vanity Case India Private Limited ("the Transferor Company" or "VCIPL") and Hindustan Foods Limited ("the Resulting Company" or "the Transferee Company" or "HFL" or "the Company") and their respective shareholders ("the Scheme") was placed before and considered by the members of the Audit Committee at its Meeting held on Tuesday, September 24, 2024, at 12:20 P.M. through Video Conferencing mode from the Registered Office of the Company at Office No. 03, Level 2, Centrium, Phoenix Market City, 15 Lal Bahadur Shastri Road, Kurla, Mumbai, Maharashtra, India - 400070. The said proposal would involve (a) the demerger of the Contract Manufacturing (Nashik) Business of the Demerged Company with the Company (b) the merger of the Transferor Company with the Company and (c) various other matters consequential or otherwise integrally connected therewith, with effect from the Appointed Date or such other date as may be approved by NCLT or any other competent authority, in accordance of 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.

1.1 The Equity shares of the Company are listed on BSE Limited ('BSE') and the National Stock Exchange of India Limited ('NSE'). The Company will be filing the Scheme along with necessary information / documents with the mentioned Stock Exchanges.

1.2 The Report of Audit Committee is made in order to comply with the requirements of the SEBI master circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023 ("SEBI Circular") and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations") as amended after considering the following:

a) Draft Scheme duly initialed by Company Secretary of the Company for the purpose of identification;

b) Valuation Report of Mr Bhavesh M Rathod, Registered Valuer (Registration No. IBBI/RV/06/2019/10708) dated September 24, 2024, being valuer appointed for the purpose of the Scheme;

c) Fairness Opinion Report dated September 24, 2024 issued by Swaraj Shares and Securities Private Limited, Category I SEBI Registered Independent Merchant Banker providing the fairness opinion on the share entitlement recommended in the valuation report prepared by Mr Bhavesh M Rathod, Registered Valuer; and

d) Draft Certificate dated September 24, 2024 obtained from the Statutory Auditors of the Company i.e. M/s. M S K A & Associates, Chartered Accountants to the effect that the Scheme is in compliance with applicable Accounting Standards specified by the Central Government in Section 133 of the Companies Act, 2013.

2. Proposed Scheme

2.1 The Scheme, inter-alia, provides for the following: (a) the demerger of the Contract Manufacturing (Nashik) Business of the Demerged Company with the Company (b) the merger of the Transferor Company with the Company and (c) consequent issue of Equity Shares by the Company to the Shareholders of the Transferor Company and the Demerged Company and various other matters consequential or otherwise integrally connected therewith.

2.2 Consideration/ Share Exchange Ratio:

In terms of the Scheme and based on Valuation Report issued by Mr Bhavesh M Rathod, Registered Valuer and Fairness Opinion provided by Swaraj Shares and Securities Private Limited, a Category ISEBI Registered Independent Merchant Banker, following would be the share entitlement ratio:

On demerger of the Demerged Undertaking with the Company:
19 fully paid-up Equity Shares of the face value of INR 2/- each of the Company shall be issued and allotted for 100 equity shares of face value INR 10/- each fully paid up held by such shareholder in the Demerged Company pursuant to the Demerger.

On merger of the Transferor Company with the Transferee Company:
4,64,58,145 equity shares of the face value of INR 2/- each fully paid-up of the Transferee Company shall be issued and allotted as fully paid up to the equity shareholders of the Transferor Company in the proportion of their holding in the Transferor Company.

2.3 The "Appointed Date" for the Demerger is: Opening of business hours on April 1, 2024; and the "Appointed Date" for the Merger is: Opening of business hours on October 1, 2024.

2.4 The "Effective Date" for the Scheme means the day on which last of the conditions specified in Clause 33 (Conditionality of the Scheme / Conditions Precedent) of the Scheme are complied with.

2.5 The Scheme would be subject to the sanction or approval of the National Company Law Tribunal, SEBI, Stock Exchanges, Shareholders and other Appropriate Authorities, if applicable (as defined in the Scheme).

3. Rationale / Need for demerger of the Demerged Undertaking with the Company

HFL is engaged in the contract manufacturing of various FMCG segment products such as foods, personal care, home care and shoes.

ACPL was incorporated in 2003 and is entirely held by the Kothari Group i.e. one of the Promoters of HFL. ACPL acquired the Demerged Undertaking from Smith & Nephew Private Limited (an Indo-German JV) in the year 2007-08. The factory was then converted into a food manufacturing unit and has been engaged in the manufacturing of soups, other condiments and energy beverages since 2008. The factory is located approx. 16 acres of land in MIDC, Sinnar, Nashik, Maharashtra and has a built up area of more than 1 lacs sft. It has been manufacturing food products for various Multinational and Indian FMCG companies.

In view of certain business developments and in order to ensure consolidation of the business into HFL, this Scheme provides for the demerger of the Contract Manufacturing (Nashik) Business of ACPL into HFL.

Amongst others, the demerger of the Contract Manufacturing (Nashik) Business of ACPL into HFL would result in the following benefits: -

a. 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;

HINDUSTAN FOODS LTD.

b. Utilisation of unused industrial land for the expansion and diversification of business. The Demerged Undertaking has approx. 16 acres of land available at MIDC in Sinnar, Nashik, Maharashtra.

c. HFL has started work to set up an ice cream manufacturing facility at the same premises which will lead to efficient utilisation of current manufacturing set-up for expansion and diversification of the business.

d. Creation of value for shareholders and various stakeholders.

e. Enhancement of net worth of the combined business to capitalize on future growth potential since both entities are engaged in similar areas of business;

f. Expansion and diversification of business, foraying into new product line and broadening the customer base;

g. 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;

h. Providing better flexibility in accessing capital, focused strategy and specialization for sustained growth.

4. Rationale / Need for merger of the Transferor Company with the Company

4.1 The Transferor Company forms part of the Promoter of the Transferee Company. It is owned by Kothari Group and Dempo Group.

4.2 The Transferor Company presently holds 4,64,58,145 equity shares of the Transferee Company of face value of INR 2/- each, representing about 40.55% of the total paid up share capital of the Transferee Company as on date.

4.3 It is proposed to amalgamate the Transferor Company into the Transferee Company, as a result of which the shareholders of the Transferor Company (Kothari Group and Dempo Group) who also form part of the Promoter of the Transferee Company shall directly hold shares in the Transferee Company.

4.4 This will lead to clear cut and straight forward shareholding structure and eliminating needless layers of shareholding tiers and at the same time demonstrate the Promoter's direct commitment and engagement with the Transferee Company and improve the confidence of all shareholders.

5 Synergies

5.1 In case of merger of the Transferor Company with the Company there is no business combination and thus no business synergies arising out of this merger and neither any adverse implication arising out of the merger on the Company or its shareholders. The said merger will lead to benefits as explained in clause 4 above.

HINDUSTAN FOODS LTD.

5.2 On demerger of Contract Manufacturing (Nashik) Business from the Demerged Company to the Resulting Company, all the assets, liabilities, business, etc. of the Contract Manufacturing (Nashik) Business shall be consolidated across sectors in a single entity. This would help the Company in:

5.2.1 concentrated management focus on the business in a more professional manner;

5.2.2 expansion and diversification of business, foraying into new product line and broadening the customer base; and

5.2.3 operational rationalization, organizational efficiency and optimal utilization of resources.

6 <u>Impact of the Scheme on the shareholders of the Company on demerger of the Contract Manufacturing (Nashik) Business into the Company</u>

The Committee reviewed the valuation report and noted the report and recommended the following:

6.1 On demerger of the Contract Manufacturing (Nashik) Business from the Demerged Company to the Company, all the assets, liabilities, business, etc. of the Contract Manufacturing (Nashik) Business shall be transferred to the Company

6.2 In consideration for the demerger of the Contract Manufacturing (Nashik) Business of the Demerged Company into the Company in terms of the Scheme and based on valuation report issued by Mr Bhavesh M Rathod, Registered Valuer and fairness opinion provided by Swaraj Shares and Securities Private Limited, Category I, the Company will issue and allot an aggregate of 16,80,940 fully paid-up Equity Shares of the face value INR 2/- (Rupees Two Only) each to the equity shareholders of the Demerged Company in the proportion of their holding in the Demerged Company.

6.3 The Scheme is expected to have several benefits for the shareholders and companies, as indicated in the rationale to the Scheme, and is expected to be in the best interests of the shareholders of the Company. Thus, there is no adverse effect of the Scheme on the shareholders of the Company.

6.4 The provisions of this Scheme have been drawn up to comply with the conditions relating to "Demerger" as defined under section 2(19AA) of the Income Tax Act, 1961 and therefore, it may not have any tax implications.

6.5 Thus, the said Scheme is not detrimental to shareholders of the Company.

6.6 Further, the Fairness Opinion confirmed that the share entitlement in the valuation report is fair to the Company, the Demerged Company and their respective shareholders.

HINDUSTAN FOODS LTD.

7 Impact of the Scheme on the shareholders of the Company on merger of Transferor Company

The Committee reviewed the valuation report and noted the report and recommended the following:

7.1 The Transferor Company is the promoter of the Company. It presently holds 4,64,58,145 equity shares of the Company of face value of INR 2/- each, representing about 40.55% of the total paid up share capital of the Company as on date.

7.2 It is proposed to amalgamate the Transferor Company into the Company, as a result of which the shareholders of the Transferor Company who also form part of the promoter of the Company shall directly hold shares in the Company.

7.3 The promoters would continue to hold the same percentage of shares in the Company, pre and post the merger.

7.4 There would also be no change in the financial position of the Company. All costs, charges, taxes including duties, levies and all other expenses, if any (save as expressly otherwise agreed) arising out of or incurred in carrying out and implementing the said merger and matters incidental thereto shall be borne by the Transferor Company or its shareholders directly.

7.5 The provisions of this Scheme have been drawn up to comply with the conditions relating to "Amalgamation" as defined under section 2(1B) of the Income Tax Act, 1961 and therefore, it may not have any tax implications.

7.6 Therefore, the said Scheme is not detrimental to the shareholders of the Company.

7.7 Further, the Fairness Opinion confirmed that the share entitlement in the valuation report is fair to the Company and the Transferor Company and their respective shareholders.

8 Cost benefit analysis of the Scheme

8.1 On merger of the Transferor Company with the Company, there would be no change in the financial position of the Company. All costs, charges, taxes including stamp duty, consultant's fees, lawyer's fees and all other expenses, if any arising out of or incurred in carrying out and implementing the said merger and matters incidental thereto shall not be borne by the Company. The same will be borne by the Transferor Company or its Shareholders directly.

8.2 For other parts of the Scheme, all costs, charges, taxes including stamp duty, consultant's fees, lawyer's fees and all other expenses, if any arising out of or incurred in carrying out and implementing the said arrangement and matters incidental thereto shall be borne by the Company.

8.3 There will be business benefits arising to the Company / group as explained in clause 3, 4 and 5 above which is not quantifiable.

9 Recommendations of the Committee

9.1 The Committee after due deliberations and due consideration of all the terms of the draft Scheme, Valuation report, Fairness Opinion Report and the specific points mentioned above, recommends the draft Scheme for favorable consideration by the Board of Directors of the Company, BSE, NSE and the Securities Exchange Board of India.

This Report of the Committee is made after considering the above documents and the same shall be treated as compliance under the applicable provisions of the SEBI Listing Regulations, SEBI Circular and other applicable provisions, if any. The Committee is entitled to make relevant modifications to this Report, if required, and such modifications or amendments shall be deemed to form part of this Report.

By Order of the Audit Committee

For and on behalf of
Hindustan Foods Limited

HINDUSTAN FOODS LTD.

Shashi Kalathil
Chairman of the Audit Committee
DIN: 02829333

Date: September 24, 2024
Place: Mumbai

VANITYCASE
Integrity Initiative Innovation