

V.B. Desai Financial Services Limited

Category I Merchant Banker - SEBI Registration No. INM 000002731

May 23, 2018
The Board of Directors
Hindustan Foods Limited
Dempo House Campal,
Panaji, Goa -403001.

ANNEXURE **E**

Dear Sir,

Sub: Fairness Opinion on Valuation Report dated May 23, 2018 issued by N. H. Vyas & Co., Chartered Accountants, Mumbai recommending the Exchange Ratio in the matter of Proposed Demerger of Contract Manufacturing (Hyderabad) Business (the Demerged Undertaking) of Avalon Cosmetics Private Limited (the 'Demerged Company' or 'ACPL') into Hindustan Foods Limited (the 'Resulting Company' or the Transferee Company' or 'HFL') pursuant to Scheme of Arrangement ("Scheme").

We refer to the engagement letter dated May 07, 2018 with V.B. Desai Financial Services Limited (herein after referred to as "VBDFS"), wherein HFL has requested us to provide fairness opinion on the Proposed Scheme of Arrangement of **Demerged Undertaking into HFL** as required under SEBI CIRCULAR NO CIR/CFD/CMD/16/2015 dated November 30, 2015.

• **Background of the Companies**

Hindustan Foods Limited

Hindustan Foods Limited is engaged in the FMCG segment for manufacture of high quality cereal based food and other products in India. The company offers instant porridges, milk and cereal based baby food, instant mixes, extruded cereal products, extruded snacks, breakfast cereals, and health drinks. It is also involved in contract manufacture of leather shoes and accessories for men, women, and children. The company was incorporated in 1984 and is headquartered in Panaji, India. Hindustan Foods Limited is a subsidiary of Vanity Case (India) Private Limited. The equity shares of the company are listed on BSE Limited.

Avalon Cosmetics Private Limited

Avalon Cosmetics Private Limited is engaged in the Contract Manufacturing Business and has units in different locations for manufacture of products like hair gel, hair oil, hair shampoo, face lotion, body moisturizer, shower gel, face wash, skin cream, talcum powder, baby care products, home cleaning products and fabric cleaning products. Avalon Cosmetics Private Limited proposes to demerge its Contract Manufacturing (Hyderabad) Business (the Demerged Undertaking) into HFL as a part of the Scheme. The Demerged Undertaking is engaged in manufacturing of fabric cleaning product including detergent powders on contract basis.

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The company was incorporated in 2003 and is based in Mumbai, India. Its registered office is located at Unit No 03, level 02, Centrium, Phoenix Market City, Kurla, Mumbai - 400070

• **Rationale of Scheme of Proposed Demerger**

We have been informed that the rationale for Proposed Demerger is as under:

1. 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.
2. 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;
3. Providing better flexibility in accessing capital, focused strategy and specialization for sustained growth; and
4. Creation of value for various stakeholders and shareholders

• **Scope and Purpose of this Report**

We have been informed that the Board of Directors of HFL is proposing a Scheme of Arrangement between Demerged Undertaking into HFL, under section 230 to 232 and other applicable provisions of the Companies' Act, 2013 and rules and regulations framed thereunder.

In this connection, to comply with the regulatory requirements of proposed Demerger, the management of HFL has appointed VBDFSL to provide fairness opinion on the Valuation Report dated May 23, 2018 issued by N. H. Vyas & Co., Chartered Accountant, Mumbai recommending the Exchange Ratio in the matter of on the proposed scheme of arrangement for Demerger and recommending the Exchange Ratio in the matter of on the Proposed Scheme of Amalgamation from financial point of view and not on fairness or economic rationale of the proposed Scheme of Arrangement per se.

This report is subject to the scope, limitations and disclaimers detailed herein after. As such the report is to be read in totality, not in parts and in conjunction with relevant documents referred to herein. This report is issued only for the purpose for facilitating the Proposed Scheme of Arrangement of Demerged Undertaking into HFL. *This Fairness Opinion is restricted to meet the requirements the SEBI Circular No CIR/CFD/CMD/16/2015 dated November 30, 2015 only and may not be used for any other purpose whatsoever or to meet the requirements of other laws, rules, regulations and statutes.*



• **SOURCES OF INFORMATION**

We have relied on the following information in issuing this fairness opinion for the purpose of Proposed Scheme of Arrangement:

- Draft Scheme of Scheme of Arrangement of Demerged Undertaking into HFL duly certified by management of HFL.
- Audited financial statements of HFL and ACPL for the year ended March 31, 2017.
- Valuation Report dated May 23, 2018 issued by N. H. Vyas & Co, Chartered Accountants, Mumbai recommending the Exchange Ratio.
- Such other information, documents, data, reports, discussions and verbal & written explanations from HFL as well as advisors for demerger/amalgamation to HFL, public domain websites, as were considered relevant for the purpose of the Fairness Opinion.

• **DISCLAIMER, EXCLUSIONS AND LIMITATIONS OF SCOPE**

- Our opinion and analysis is limited to the extent of review of documents as provided to us by HFL and Proposed Scheme of Arrangement of Demerged Undertaking into HFL.
- We have relied upon the accuracy and completeness of all information provided to us without carrying out due diligence and independent verification or validation of such information to establish its accuracy and sufficiency. We have not conducted any independent Valuation or appraisal of any assets and liabilities of HFL or ACPL. No responsibility is assumed for information furnished by the Company and such information is believed to be reliable.
- We have been informed that all information relevant for the purpose of issuing Fairness Opinion has been disclosed to us and we are not aware of any material information that has been omitted or remains undisclosed.
- We have relied exclusively on Valuation Report prepared and issued by N. H. Vyas & Co, Chartered Accountants without independent verification. We have not independently checked or verified the assumptions made in the valuation report.
- Our fairness opinion assumes that the title to assets and liabilities of all the companies as reflected in their respective balance sheets is intact.
- We have not conducted visit to locations of production and/or point of sales of the Company. The robustness of the analysis is highly dependent on reasonableness, commercial viability and achievability of assumptions underlying the forecast. We are not required to and have not validated the reasonableness and commercial viability underlying the forecasts and assumptions



- The realization of the projections is dependent on the continuing validity of assumptions. Our review cannot be directed to providing any assurance about the achievability of the final projections. Since projections relate to future, the actual results are likely to be different from projected results and differences may be material and it may have material impact on our conclusion. For the purpose of this report, we have assumed that the projections as envisaged by all the companies and reflected in valuation report will materialize as projected.
- We have not conducted any evaluation of solvency or fair value of the Company under any laws relating to bankruptcy, insolvency or similar matters.
- We do not express any opinion as to the price at which shares of HFL may trade at any time including subsequent to the date of this opinion or post Scheme of Arrangement.
- We do not express any opinion as to tax or other consequences that may arise from the Proposed Scheme of Arrangement of Demerged Undertaking into HFL and their respective shareholders, nor does our opinion address any legal, tax regulatory or accounting matters as to which we understand that the respective companies have obtained necessary professional advice.
- Complying with the regulatory requirements for the Proposed Scheme of Arrangement including and not limited to SEBI Rules and Regulations, Stock Exchange Regulations, Companies Act 1956, Companies Act 2013 and other applicable laws and regulations is the exclusive responsibility of the Board of Directors of HFL.
- This report is prepared primarily to comply with regulatory requirements of the Proposed Scheme of Amalgamation. The report does not look into business / commercial reasons behind the Proposed Scheme of Arrangement nor the likely benefits arising out of the same which is the exclusive responsibility of Board of Directors of the respective companies. Similarly, our report does not address relative merits of the Proposed Scheme of Arrangement as compared with any other alternative business transactions or other alternatives.
- This fairness opinion at best is only an 'opinion'. This report does not express any views nor makes recommendation as to how the shareholders of companies should vote at any shareholders' meeting to be held in connection with the Proposed Scheme of Arrangement. It is the prerogative of shareholders to either accept or reject our fairness opinion. The shareholders of companies may do so at their risk and responsibility after undertaking necessary due diligence and evaluation. The responsibility for any decision would remain with the decision maker i.e. shareholders.
- Prior to issuance of this Fairness Opinion, the contents and factual accuracies of this Report was reviewed and approved by the management of the Company.



- We assume no responsibility in updating or revising our opinion based on the circumstances or events accruing after the date hereof.
- This fairness opinion shall have no value if for any reasons the proposed scheme of Arrangement is terminated or called off.
- The fee for the engagement is not contingent upon the results reported.
- We owe responsibility only to the Board of Directors of HFL as per the terms of our engagement letter and nobody else. We do not accept any liability to any shareholder, employees, tax authorities or other third parties in relation to the issue of this report. Our liability if any, under any and all circumstances shall be limited to fees received by us for undertaking this assignment.

• **VALUATION REPORT**

We have reviewed the Valuation Report dated May 23, 2018 issued by N.H. Vyas & Co., Chartered Accountants, recommending the swap ratio for the proposed scheme of arrangement.

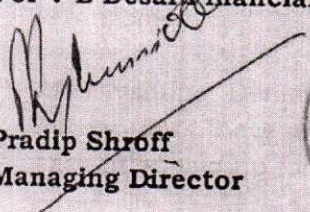
After valuing Demerged Undertaking and HFL individually, N.H. Vyas & Co, Chartered Accountants, have arrived at swap ratio of 42.15 : 1 i.e. 42.15 equity shares of HFL of Rs. 10 each fully paid up for every 1 equity shares of ACPL of Rs. 10 each fully paid up.

• **OPINION**

Based on the facts and circumstances of the case and according to information and explanation provided to us together with exclusions & limitations mentioned herein above, we state that in our opinion and to the best of our information and knowledge, Exchange Ratio as recommended by N.H. Vyas & Co., Chartered Accountants, for the Proposed Scheme of Arrangement seems fair and reasonable purely from financial point of view.

Thank You,

For V B Desai Financial Services Limited


Pradip Shroff
Managing Director

