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REPORT OF THE AUDIT COMMITTEE OF HSIL LIMITED RECOMMENDING THE DRAFT COMPOSITE SCHEME OF ARRANGEMENT AMONGST HSIL LIMITED, SOMANY HOME INNOVATION LIMITED, BRILLOCA LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

MEMBERS PRESENT

- 1) Mr. V.K.Bhandari - In the Chair
- 2) Mr. N.G.Khaitan - Member
- 3) Mr. Salil Bhandari - Member

BY INVITATION

Dr. Rajendra Kumar Somany
Mr. R. B. Kabra
Mr. Sandeep Sikka
Mr. G. Harsha Kadam

Mr. Sanjay Gaur
Mr. O. P. Pandey

Mr. Naveen Malik

Chairman and Managing Director
President (Building Products Division)
Chief Financial Officer
Chief Executive Officer (Packaging Products Division)
Chief Human Resource Officer
Sr. Vice President (Finance) (Packaging Products Division)
Associate Vice President (Corporate Finance)

INTERNAL AUDITORS

Mr. Neeraj Singhal
Mr. Mukul Trehan

Head - Internal Audit
Representative of DH Consultants Pvt. Ltd

STATUTORY AUDITORS

Mr. N.K. Lodha
Mr. Gaurav Lodha

Representative of M/s Lodha & Co

IN ATTENDANCE

Ms. Payal M Puri

Company Secretary

1. Background

- 1.1. A meeting of the Audit Committee of HSIL Limited ("Company") was held on 10th November, 2017 *inter alia* to consider and recommend to the Board of Directors of the Company, the proposed composite scheme of arrangement ("Scheme") amongst the Company, Somany Home Innovation Limited ("Resulting Company 1"), Brilloca Limited ("Resulting Company 2") and their respective shareholders and creditors, under the provisions of Sections 230 to 232 of the Companies Act, 2013 read with Section 66 and other applicable provisions of the Companies Act, 2013 and other applicable laws, with effect from the Appointed Date, as defined in the Scheme.

12. 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 the necessary information/documents with both the BSE and the NSE (collectively "Stock Exchanges").

HSIL Limited
(An ISO 9001:2008 & ISO 14001:2004 Certified Company)

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- 1.3. This report of the Audit Committee is made in order to comply with the requirements of Circular No. CFD/DIL3/CIR/2017/21, dated March 10, 2017, on schemes of arrangement involving listed companies, issued by the Securities and Exchange Board of India ("SEBI Circular").
- 1.4. The following documents were placed before the Audit Committee:
- (a) The draft of the Scheme, initiated by the company secretary for the purposes of identification;
 - (b) The valuation report, dated 8th November, 2017 issued by Santosh K Singh & Co., Chartered Accountants ("Valuer"), describing the methodology adopted by them in arriving at and recommending the Share Entitlement Ratio (defined hereinafter) ("Valuation Report"); and
 - (c) The fairness opinion dated 9th November, 2017 prepared by Finshore Management Services Limited, Merchant Banker ("Merchant Banker"), providing the fairness opinion on the Share Entitlement Ratio (defined hereinafter) recommended by the valuer, Santosh K Singh & Co., Chartered Accountants ("Fairness Opinion").

2. Proposed Scheme

2.1. The Audit Committee noted the salient features of the Scheme as under:

- (a) The draft Scheme provides for the demerger of, (i) the Consumer Products Distribution and Marketing Undertaking ("CPDM Undertaking") and Retail Undertaking of the Company into Resulting Company 1, and (ii) the Building Products Distribution and Marketing Undertaking ("BPDM Undertaking") of the Company into Resulting Company 2. The CPDM Undertaking, Retail Undertaking and BPDM Undertaking shall be collectively referred to as the "Demerged Undertakings".
- (b) Appointed date shall be opening of business hours of April 1, 2018 or such other date as the National Company Law Tribunal may direct.
- (c) Upon the Scheme becoming effective, Resulting Company 1 shall issue and allot equity shares, without receipt of any cash, to the shareholders of the Company, in the ratio of 1 equity share of Rs. 2 each of Resulting Company 1 for every 1 equity shares of Rs. 2 each of the Demerged Company, in consideration for, (i) the transfer of the CPDM Undertaking and the Retail Undertaking into Resulting Company 1; and (ii) the transfer of the BPDM Undertaking into Resulting Company 2. Further, upon the proposed Scheme becoming effective, the existing paid up equity share capital of Resulting Company 1 held by the Company shall stand cancelled.
- (d) Upon the Scheme becoming effective, all assets, liabilities, contracts, rights, obligations, etc., pertaining to (i) the CPDM Undertaking and the Retail Undertaking shall stand transferred to Resulting Company 1, and (ii) the BPDM Undertaking shall stand transferred to Resulting Company 2, in each case, as a going concern, with effect from the Appointed Date.
- (e) The Scheme will become effective on obtaining all approvals as mentioned in the draft Scheme.
- (f) The equity shares issued by Resulting Company 1 to the shareholders of the Company pursuant to the Scheme are proposed to be listed on the Stock Exchanges, in terms of the Scheme and the SEBI Circular.



2.2. The Audit Committee reviewed the draft Scheme, the Valuation Report and the Fairness Opinion and also noted the rationale and benefits of the Scheme, which *inter alia* are as follows:

- (a) creation of separate and distinct entities housing the Demerged Undertakings and the Remaining Undertaking (as defined in the Scheme);
- (b) optimal monetisation and development of each of the respective businesses of the Demerged Undertakings and Remaining Undertaking (as defined in the Scheme), by attracting focused investors and strategic partners having the necessary ability, experience and interests in the relevant sectors;
- (c) dedicated and specialised management focus on the specific needs of the respective businesses; and
- (d) benefit to all stakeholders, leading to growth and value creation in long run and maximising the value and return to the shareholders, unlocking intrinsic value of the Company's assets, achieving cost efficiencies and operational efficiencies.

2.3. The Audit Committee reviewed the Valuation Report and noted the recommended share entitlement ratio for the demerger ("Share Entitlement Ratio") as under:

Upon the coming into effect of the Scheme and in consideration of the demerger of, (a) the CPDM Undertaking and the Retail Undertaking into Resulting Company 1; and (b) the BPDM Undertaking into Resulting Company 2, Resulting Company 1 shall issue and allot equity shares, without receipt of any cash, to the shareholders of the Company in the following ratio:

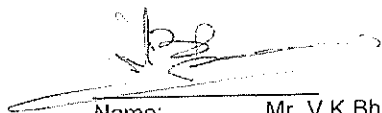
1 equity share of Rs. 2 each of Resulting Company 1 for every 1 equity share of Rs. 2 each of the Company.

2.4. Further, the Fairness Opinion confirmed that the Share Exchange Ratio contained in the Valuation Certificate is fair to the shareholders of the Company.

3. Recommendation of the Audit Committee

The Audit Committee after due deliberations and due consideration of all the terms of the draft Scheme, Valuation Report and the Fairness Opinion, recommends the draft Scheme for favourable consideration by the Board of Directors of the Company, the Stock Exchanges and SEBI.

By Order of the Audit Committee
For and on behalf of
HSIL Limited


Name: Mr. V.K. Bhandari
Designation: Chairman, Audit Committee

Date: 10th November, 2017

Place: Gurugram