Kkalpana Industries (India) Limited

REPORT OF THE AUDIT COMMITTEE OF KKALPANA INDUSTRIES (INDIA) LIMITED RECOMMENDING THE SCHEME OF ARRANGEMENT BETWEEN KKALPANA INDUSTRIES (INDIA) LIMITED ("DEMERGED COMPANY" OR "COMPANY") AND DDEV PLASTIKS INDUSTRIES LIMITED ("RESULTING COMPANY") AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

MEMBERS PRESENT:

Mr. Samir Kumar Dutta	– Chairman of the Audit Committee Meeting
Mr. Rajesh Kothari	- Member of the Audit Committee Meeting
Mrs. Ramya Hariharan	- Member of the Audit Committee Meeting

IN ATTENDANCE:

Ms. Tanvi Panday	- Company Secretary

BY INVITATION:

Mr. Indar Chand Dakalia	- Chief Financial Officer
Mr. Jitendra Tiwari	- Senior President
Mr. Arihant Bothra	- GM-Finance and Commercial
Mr. Suman Poddar	- GM- Accounts

1. BACKGROUND

1.1 Audit Committee of Kkalpana Industries (India) Limited (the 'Demerged Company' or the 'Company') recommending Scheme of Arrangement between Kkalpana Industries (India) Limited and Ddev Plastiks Industries Limited (the "Resulting Company") (collectively referred to as "Applicant Companies") and their respective shareholders and creditors. The Committee took note of the Scheme placed before it.

1.2 The Company is incorporated under the provisions of the Companies Act, 1956. The equity shares of the Company are listed on BSE Limited and Calcutta Stock Exchange Limited.

1.3 This report is made in order to comply with the requirements of the SEBI (Listing and Obligations and Disclosure Requirements), Regulations, 2015 and SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017, as amended from time to time, and after considering the following documents before the Audit Committee:

a. Draft Scheme, duly initialled by the Company Secretary of the Company for the purpose of identification; and

b. The certificate of B. Mukherjee & Co., Chartered Accountants, the statutory auditor of the Company, to the effect that the accounting treatment contained in the Scheme is in compliance with the applicable Accounting Standards notified by Central Government under Section 133 of the Act and other generally accepted accounting principles;

c. The Share Entitlement Ratio Report dated 9 December 2020 recommending the share entitlement ratio (hereinafter referred to as "Valuation Report") on the Scheme, provided by Mr. Abhinav Agarwal, a Registered Valuer;

d. The Fairness Opinion dated 9 December 2020 on the share entitlement ratio recommended by the Valuation Report for the purpose of the Scheme provided by M/s. Sundae Capital Advisors Private Limited, SEBI registered Merchant Banker.

2. PROPOSED SCHEME OF ARRANGEMENT

2.1 Need and Rationale of the Scheme of Arrangement

(A) The Audit Committee noted the rationale and need for demerger of the Demerged Undertaking from the Demerged Company into Resulting Company, as provided in the draft scheme of arrangement, and which is reproduced hereunder:

"The underlying business rationale and objectives are as follows:

1. *The Demerged Undertaking and the Remaining Undertaking have their own set of strengths and dynamics in the form of nature of risks, competition, challenges, opportunities and business methods, leading to different growth potentials. Hence, segregation of the two undertakings would enable a focused management to explore the potential business opportunities effectively and efficiently;*

2. *The demerger would result in achieving efficiency in operational processes by designing and implementing independent strategies specifically designed for the two businesses and in optimizing profitability. This would in turn enhance the shareholders' wealth.*

3. *Targeting and attracting new investors with specific focus and expertise in the two businesses, thereby providing the necessary funding impetus to the long-term growth strategy of the two businesses;*

4. *The Compounding Business Undertaking of the Demerged Company is an old and diverse undertaking, that caters to a range of sectors viz., housing wiring, high voltage cables, packaging, white goods, automotive, footwear, to name a few. The Compounding Business Undertaking has proved its significant resistance to market volatility over the years and therefore, on a standalone basis, it has scope for enhanced valuation and entry of strategic domestic / international players by way of technological tie-ups / direct acquisition of stake in the business. Hence, demerger of the Compounding Business Undertaking would help in targeting and attracting new investors with specific focus and expertise in the business, thereby providing the necessary funding impetus to the long-term growth strategy of the businesses.*

5. *The remaining Undertaking of the Demerged Company, inter alia, comprises of a Reprocessing Business Unit located in Falta, West Bengal, and it holds a license for reprocessing of plastic waste which has restriction on transferability. A similar license is also held in a Dubai based wholly owned subsidiary ['WOS'] of the Demerged Company. Since ultimate ownership of such licenses relating to the Remaining Undertaking rests with the Demerged Company, the Reprocessing Business Undertaking along with its corresponding licenses as aforesaid, would be continued to be retained by the Demerged Company.*

6. *Further, given the recent international trends and demand for recycling of plastics (recognized as upcycling across the world), the Reprocessing Business Undertaking has significant long-term growth prospects. Moreover, growth potential of the Reprocessing Business Undertaking is substantially high. Hence, demerger of the Compounding Business Undertaking would also enhance the standalone valuation for Reprocessing Business Undertaking. Such higher growth and valuation potentials would be attractive to specific set of strategic domestic / international players who*

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would look to target direct acquisition of stake in the business. The transfer and vesting of the Demerged Undertaking to the Resulting Company will enable better focus and management of the Demerged Undertaking and the Remaining Undertaking.

7. *The Reprocessing Business Undertaking is a debt free unit and has significantly lower working capital requirement as compared to the Compounding Business Undertaking. Hence, demerger of the Compounding Business Undertaking would help in independently managing the different funding requirements of the two business, both in terms of type of funds and amount of infusion required for the businesses.*

8. *As part of expansion plans for Reprocessing Business Undertaking, the Demerged Company intends to explore chemical recycling and other recycling activities, which are also expected to attract strategic domestic and international investors.*

   Pursuant to the Scheme, the equity shares issued by the Resulting Company would be listed on BSE. Therefore, the existing shareholders of the Demerged Company would hold the shares of two listed entities after the Scheme becoming effective. Such shareholders would then be able to choose whether they want to remain invested in either or both the businesses / operations of the Demerged Company, giving them flexibility in managing their investment in the two businesses having differential dynamics."

The Scheme shall be in the beneficial interest of the shareholders of the companies. The Scheme shall not be in any manner prejudicial to the interest of the concerned members, creditors, employees or general public at large.

2.2 The Synergies/Cost benefits analysis of the Scheme are as under:

The Committee reviewed the Scheme and noted that the demerger would result in achieving efficiency in operational processes implementation of independent strategies specifically designed for the two businesses and in optimizing profitability. Further, the Committee also noted that the reprocessing business is a debt free undertaking and also has a lower working capital requirement as compared to the Demerged Undertaking. This would in-turn allow the Company to focus on this growing business segment in a cost-effective manner.

The Committee also noted that the Reprocessing Business Undertaking has attractive expansion plans and hence with the transfer of Demerged Undertaking, the Company would be able to place better focus on such growth and expansion plans of the Reprocessing Business Undertaking.

Thus, the re-structuring is proposed to result into enhanced development and growth of the business of the Company with independent focus on each business segment and more productive utilization of such resources which would be beneficial for all stakeholders.

Further, there are no social or environmental impact of the proposed re-structuring. Except the transaction cost, there are no additional costs involved for the proposed re-structuring. The Committee is of the opinion that the expected synergies and benefits in pursuance of the re-structuring would offset the impact of such costs for the Company.

2.3 The salient features of the Scheme are as under:

a. Scheme of Arrangement between Kkalpana Industries (India) Limited ("Demerged Company" or "Company") and Ddev Plastiks Industries Limited ("Resulting Company") (collectively referred to as "Applicant Companies"), and their respective shareholders and creditors (hereinafter referred to as "Scheme" or "the Scheme" or "Scheme of Arrangement"), whereby it proposes for, the demerger of the "Demerged Undertaking" of the Demerged Company into the Resulting Company.

b. Appointed Date for the purpose of this Scheme means April 1, 2021 or such other date approved by the National Company Law Tribunal, for the demerger of Demerged Undertaking and transfer and vesting thereof into the Resulting Company.

c. In consideration of the proposed Scheme, the Resulting Company will issue and allot equity shares, to each shareholder of the Demerged Company, whose names appear in the register of members of Demerged Company on the record date as may be fixed for the purpose by the Board of Resulting Company in consultation with the Demerged Company (hereinafter referred to as "the Record Date"), in the following manner:

"***1(one) fully paid up equity shares of INR 1/- each of the Resulting Company, for every 1(one) fully paid up equity shares of INR 2/- each in the Demerged Company.***"

d. The Share Entitlement Report dated 9 December 2020 recommending the share entitlement ratio (hereinafter referred to as "Valuation Report") on the Scheme provided by the Valuers.

e. The Fairness Opinion dated 9 December 2020 on the share entitlement ratio recommended by the Valuation Report for the purpose of the Scheme provided by M/s. Sundae Capital Advisors Private Limited, SEBI registered Merchant Banker.

f. The certificate of B. Mukherjee & Co., Chartered Accountants, the statutory auditor of the Company, to, the effect that the accounting treatment contained in the Scheme is in compliance with the applicable Accounting Standards notified by Central Government under Section 133 of the Act and other generally accepted accounting principles.

g. The equity shares proposed to be allotted by the Resulting Company will be listed only on BSE Limited, a recognized stock exchange having nation wide trading platform and no equity shares will be listed on the Calcutta Stock Exchange Limited. The Calcutta Stock Exchange Limited do not have a nationwide trading platform and no trading in the equity shares of the Demerged Company takes place on the said stock exchange. Therefore, not listing of the equity shares of the Company on Calcutta Stock Exchange will result in cost saving for the Company in the long term.

h. The effectiveness of the Scheme is conditional upon the fulfillment of the actions specified in the Scheme, which include:

   i. No-objections being received from the Stock Exchanges, in terms of the SEBI Circular;
   ii. Approval of the requisite majorities of the various classes of shareholders and creditors of the Company and the Resulting Company;
   iii. obtaining such other approvals and sanctions as may be required by applicable law or contract, in respect to the Scheme;
   iv. Sanction of the Scheme by the Hon'ble NCLT; and
   v. Certified copies of the order of the Hon'ble NCLT sanctioning the Scheme being filed with the RoC, through joint application by applicant Companies.

2.4 Impact of the scheme on the shareholders are as under:

a. The shareholders of the Demerged Company as on the Record Date shall be entitled to equity shares in the Resulting Company basis the share entitlement ratio determined by Mr. Abhinav Agarwal in the valuation report submitted to this Committee. Subsequent to which the shareholders of the Demerged Company in addition to the shares held in the Demerged Company shall also become shareholders in the Resulting Company.

b. The Scheme will not adversely affect the rights or interest of any shareholder of the Applicant Companies or their respective shareholders or creditors, in any manner whatsoever.

3. Recommendation of the Audit Committee

Taking into consideration the draft Scheme, Accounting Treatment Certificate and other documents, as placed, the Audit Committee recommends the draft Scheme to the Board of Directors of the Company for its consideration and approval.

By Order of the Audit Committee
For Kkalpana Industries (India) Limited

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Samir Kumar Dutta (DIN: 07824452)
Chairman of the Audit Committee

Date: 11th December 2020
Place: Kolkata