



SAH POLYMERS LIMITED

www.sahpolymers.com CIN : U24201RJ1992PLC006657

REPORT OF THE AUDIT COMMITTEE OF SAH POLYMERS LIMITED ("COMPANY" OR "TRANSFEREE COMPANY") RECOMMENDING THE SCHEME OF AMALGAMATION BETWEEN THE COMPANY AND FIBCORP POLYWEAVE PRIVATE LIMITED AND THEIR RESPECTIVE SHAREHOLDERS

This report is considered and approved by the Audit Committee of the Company ("Audit Committee") at its meeting held on September 25, 2023 at 10:00 A.M. at the registered office of the Company at E-260-261, Mewar Industrial Area, Madri, Udaipur-313003 where the following Audit Committee members were present:

Members present:

1. Mr. Ramesh Chandra Soni -Chairman
2. Mr. Nikhil Khanderao Raut- Member
3. Mr. Hakim Sadiq Ali Tidiwala -Member

Leave of Absence: All the Members were present.

Mr. Ramesh Chandra Soni, Chairman of the Audit Committee took the Chair.

1. BACKGROUND

1.1. The proposed scheme of amalgamation between the Company and Fibcorp Polyweave Private Limited ("Transferor Company ") and their respective shareholders ("Scheme") under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 ("the Act") read with the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016, and the relevant provisions of the Securities and Exchange Board of India ("SEBI") Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023 ("SEBI Circular") and Securities and Exchange Board of India (Listing Obligations and Disclosures Requirements) Regulations, 2015, has been placed before the Audit Committee at its meeting held on September 25, 2023 for the Audit Committee to consider recommending the said Scheme.

1.2. As per the SEBI Circular, the Audit Committee is required to adopt a report recommending the Scheme, taking into consideration inter alia, the valuation report, and commenting on the need for the Scheme, rationale for the Scheme, cost benefit analysis of the Scheme, impact of the scheme on the shareholders and synergies of business of the entities involved in the Scheme.

1.3. The Audit Committee has considered, reviewed and discussed the following in this respect.

- (a) the draft Scheme which is duly initialled by Company Secretary of the Company for the purpose of identification.
- (b) valuation report dated September 25 ,2023 issued by Mr. Mahesh Mandowara, an independent and registered valuer, in respect of the share exchange ratios set out under the Scheme;



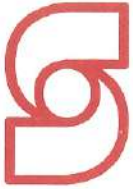
Regd. Office & Factory :

E 260-261, Mewar Industrial Area, Madri, Udaipur-313003 (Rajasthan)

Tel : 0294-2490242, 9983349242, Tele/Fax : 0294-2490534

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- (c) fairness opinion dated September 25 ,2023 issued by Kunvarji Finstock Private Limited, an independent and SEBI registered Category I merchant banker having SEBI reg. no.: INM000012564, providing opinion on the fairness of the share exchange ratios proposed in the valuation report.,
- (d) draft certificate from the statutory auditor of the Company H R Jain & Co.,
- (e) Undertaking given by the Company confirming that approval of majority of public shareholders as prescribed under Paragraph (A)(10)(b) of Part I of the SEBI Circular is not applicable to the Scheme along with certificate of the Statutory Auditors of the Company, certifying the said undertaking.

2. PROPOSED SCHEME

The Audit Committee has reviewed the draft Scheme and noted its salient features inter alia as set out below:

- (a) amalgamation of Transferor Company with and into the Transferee Company on the effective date (as set out in the Scheme) and in accordance with Section 2(1B) of the Income-tax Act, 1961;
- (b) the Appointed Date of the Scheme is April 1, 2023;
- (c) upon the Scheme coming into effect and with effect from the Appointed Date, the Transferor Company together with all present and future assets and liabilities, shall stand transferred to and vest in the Transferee Company, as a going concern, and the Transferee Company will issue 494 (Four hundred ninety four) fully paid up equity shares of INR 10 (Rupee Ten) each of the Transferee Company to the equity shareholders of the Transferor Company (other than the Transferee Company in respect of its shareholding in Transferor Company) as on the record date for every 10 (Ten) fully paid up equity share of INR 100 (Indian Rupees Hundred) each held by such equity shareholders of the Transferor Company ;
- (d) upon the Scheme becoming effective, the Transferor Company shall stand dissolved without being wound-up;
- (e) upon the Scheme coming into effect and with effect from the Appointed Date, the Transferee Company shall account for the amalgamation of Transferor Company with the Transferee Company in its books of account as per the 'Pooling Interest Method' in accordance with accounting principles as laid down in the Indian Accounting Standard 103 (Business Combinations), notified under Section 133 of the Act read with Companies (Indian Accounting Standards) Rules, 2015.

3. NEED FOR THE AMALGAMATION AND RATIONALE FOR THE SCHEME

The Audit Committee noted and agreed with the need for the amalgamation and rationale of the Scheme which is set out below:



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- 3.1 The Transferor Company is a subsidiary of the Transferee Company and is under the management of the Transferee Company.
- 3.2 The Transferor Company and the Transferee Company are engaged in the business of manufacture and sale of Flexible Intermediate Bulk containers (FIBC), HDPE/PP fabrics and sacks etc. The amalgamation will ensure focused management in the combined entity thereby resulting in efficiency of management and maximizing value for the shareholders. Such restructuring will lead to simplification of group structure by eliminating multiple companies in similar business.
- 3.3 The proposed amalgamation of the Transferor Company with the Transferee Company in accordance with the terms of this Scheme would enable both the Companies to realize benefits of greater synergies between their businesses, yield beneficial results and pool financial resources as well as managerial, technical, distribution and marketing resources of each other in the interest of maximizing value to their Shareholders and the Stakeholders.

4. SYNERGIES OF BUSINESS OF THE ENTITIES INVOLVED IN THE SCHEME

The Audit Committee noted that proposed Scheme would result in following Synergies:

- a. **Operational integration and better facility utilisation:** The amalgamation in accordance with this Scheme will provide an opportunity for reduction of operational costs through transfer of intermediary products between the Companies, better order loads for the business through pooling of orders, synergies from sales and production planning across the businesses.
- b. **Efficient raw material procurement and reduced procurement costs:** Synergy of operations will be achieved as a result of sustained availability of raw materials as well as reduced procurement costs for Transferor Company. The proposed amalgamation would ensure combined sourcing of raw materials such as HDPE, PP, pigments, Accessories etc. by both the Transferor Company and the Transferee Company, would result in reduction in overall procurement cost for the amalgamating Company. Besides, certain requirements of the Transferor Company such as Fabrics etc. could be directly met by the Transferee Company's production and procurement arms.
- c. **Operational Efficiencies:** The amalgamation would result in synergy benefits arising out of single value chain thereby reducing costs and increasing operational efficiencies. Centralization of inventory, from raw material to finished goods and spares, may enable better efficiency, utilization and overall reduction in working capital. The proposed amalgamation would likely result in optimized power consumption, reduced costs, sharing of best practices, cross-functional learnings, better utilisation of common facilities and greater efficiency in debt and cash management.



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- d. **Rationalization of Procurement & Logistics costs:** Consolidation and optimization of stockyards could significantly reduce logistics and distribution costs for both the Transferor Company and the Transferee Company.
- e. **Enhancing Value in Marketing:** With an overlap in products across the Transferor Company and the Transferee Company, the combined entity would be better positioned to service customer needs. The Transferor Company could expand its existing core market using the strong distribution channel of the Transferee Company. Further, the Transferor Company could also have access to the Transferee Company's marketing capabilities. The Transferee Company would benefit from complementary product offerings of the Transferor Company, resulting in a strong presence across market segments. The proposed amalgamation will result in access to new markets and product offerings as well as increased export volumes.
- f. **Improving Customer Satisfaction and Services:** The proposed amalgamation would make it easier to address needs of customers by providing them uniform product and service experience, on-time supplies, improved service levels thereby improving customer satisfaction. With common credit management, the customers are expected to benefit from the channel financing benefits from the combined entity.
- g. **Improved safety, environment and sustainability practices:** Increased coverage of plant automation can be achieved across plants of the Transferor Company, by using the Transferee Company's information technology applications and systems.
- h. Thus, the proposed amalgamation is beneficial, advantageous and not prejudicial to the interests of the shareholders, creditors and other stakeholders of the Transferor Company and the Transferee Company and is beneficial to the public at large.

5. IMPACT OF THE SCHEME ON SHAREHOLDERS

The Audit Committee noted that proposed Scheme would have following impact on shareholders:

- 5.1 For the Shareholders of the Transferee Company, the Scheme will result in economies of scale and consolidation of opportunities will improve profitability and enhance overall Shareholder value. This is particularly marked in the improved synergies that will arise pursuant to the Scheme. The impact of the Scheme on the Shareholders, including the Public Shareholders, would be the same in all respects and no Shareholder is expected to have any disproportionate advantage or disadvantage in any manner.
- 5.2 For the Shareholders of the Transferor Company, the Scheme will provide an opportunity to improve the economic value for the Shareholders. This is particularly marked in the improved synergies that will arise pursuant to the Scheme. Upon the Scheme becoming effective, the shareholders of the Transferor Company will be able to participate in the growth of the Transferee Company.



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6. COST BENEFIT ANALYSIS OF THE SCHEME

The Audit Committee noted that proposed Scheme would have following cost benefits:

- 6.1. The Audit Committee noted that the Scheme will provide an opportunity to improve the economic value for the shareholders. This is particularly marked in the improved synergies that will arise pursuant to the Scheme. The proposed amalgamation will result in deriving benefits for future capacity expansion and funding of capital expenditure, given the strong credit rating of the Transferee Company. The Audit Committee further noted that while the Scheme would lead to incurring of some costs towards its implementation, however, the benefits other Scheme over a longer period would far outweigh such costs for the stakeholders of the Company.

7. RECOMMENDATION OF THE AUDIT COMMITTEE:

7.1 The Audit Committee has perused the following documents:

- a. Draft Scheme duly initialled by the Company Secretary of the Company for the purpose of identification;
- b. Draft Merger implementation agreement;
- c. Valuation Report dated September 25, 2023, issued by Mr. Mahesh Manodwara., Registered Valuer (IBBI Reg no. IBBI/RV/06/2020/13459) ("Valuation Report"), who in his report has recommended the share exchange ratio of 494 equity shares of the Company for every 10 equity shares of Fibcorp Polyweave Private Limited ("Share Exchange Ratio"), as set out in valuation report.
- d. Fairness opinion dated September 25, 2023, issued by Kunvarji Finstock Private Limited, an independent SEBI registered Category-I Merchant Banker having SEBI reg. no.: INM000012564, providing fairness opinion on the recommended Share Exchange Ratio in the Valuation Report prepared by Mr. Mahesh Mandowara. ("Fairness Opinion");
- e. Undertaking to be given by the Company confirming that approval of majority of public shareholders as prescribed under Paragraph (A)(10)(b) of Part I of the Master SEBI Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023 is not applicable to the Scheme along with certificate of the Statutory Auditors of the Company, certifying the said undertaking and
- f. Auditor's Certificate by the Statutory Auditors of the Company i.e., HR Jain & Co. Chartered Accountants ("Auditors Certificate") in terms of Para (A)(5) of Part I of the Master SEBI Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023, and proviso to sub-clause (j) of Section 232(3) of the Act to the effect that (a) the Scheme is in compliance with applicable Accounting Standards specified by the Central Government under Section 133 of the Act.



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7.2. The Audit Committee having considered and noted the above, recommends the draft Scheme to the Board, in its present form for favourable consideration by the Board, Stock Exchanges, National Company Law Tribunal, SEBI and such other regulatory authorities, as may be applicable.

8. Conclusion

Having considered the Scheme and its rationale and its benefits, the Valuation Report, the Fairness Opinion, impact of the Scheme on the Company and its shareholders, cost benefit analysis of the Scheme, synergies of business and other documents as placed before it, the Committee unanimously recommends the Scheme for consideration by the Board of Directors of the Company

**For and on behalf of the Audit Committee of
Sah Polymers Limited**



Ramesh Chandra Soni
Chairman of the Audit Committee
Date: 25.09. 2023
Place: Udaipur



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