KHADIM

Annexure-D

REPORT OF THE AUDIT COMMITTEE ('COMMITTEE') OF KHADIM INDIA LIMITED RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN KHADIM INDIA LIMITED, KSR FOOTWEAR LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS HELD ON SEPTEMBER 29, 2023 AT THE REGISTERED OFFICE OF KHADIM INDIA LIMITED

Present – Directors / Members

1.	Dr. Indra Nath Chatterjee	Chairman of Audit Committee
2.	Prof. (Dr.) Surabhi Banerjee	Member of Audit Committee
3.	Mr. Alok Chauthmal Churiwala	Member of Audit Committee

Company Secretary & Head – Legal and Chief Finance Officer were also present at the meeting.

1. Background

1.1. A meeting of the Audit Committee ('Committee') was held on September 29, 2023, inter-alia, to consider and if thought fit, recommend to the Board of Directors ('**Board**') the proposed Scheme of Arrangement under sections 230 to 232 and other applicable provisions of the Companies Act, 2013 ('the Act'), between Khadim India Limited (hereinafter referred to as 'the **Demerged Company'** or '**the Company**' or '**KIL**'), KSR Footwear Limited (hereinafter referred to as 'the **Resulting Company'** or '**KFL**') and their respective shareholders and creditors under the provisions of the Act ('**Scheme**').

1.2. The Appointed Date for the proposed Scheme is same as the Effective Date or such other date as may be mutually agreed by the Companies.

1.3. The Effective Date for the proposed Scheme is the date which will be the first day of the month following the month in which Companies mutually acknowledge in writing that all the conditions referred to in Clause 25.1 of the Scheme (as set out in paragraph 2.4 of this report) have occurred or have been fulfilled, obtained or waived, as applicable, in accordance with this Scheme.

1.4. The Scheme will be presented before the NCLT under sections 230 to 232 and other applicable provisions of the Act and the rules made thereunder and will also be in compliance with section 2(19AA) of the Income-tax Act, 1961 and Securities and Exchange Board of India Master Circular No. Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023 ('SEBI Master Circular').

1.5. In terms of the SEBI Master Circular, a report from the Audit Committee is required recommending the draft Scheme, taking into consideration, *inter-alia*, the Share Entitlement Ratio Report (as defined hereinafter), and commenting on the need for the scheme, rationale of the Scheme, impact of the Scheme on the shareholders, cost benefit analysis of the Scheme and synergies of business of the entities involved in the

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Scheme. This report of the Committee is made in order to comply with the requirements of the SEBI Master Circular.

2. **The Salient Features of the Scheme:**

The Scheme, *inter-alia,* provides for:

2.1. Demerger of the Distribution Business ('**the Demerged Undertaking**') of the Company, as going concern into the Resulting Company, and subsequent reduction and cancellation of the existing paid - up share capital of the Resulting company in accordance with clause 12 of the Scheme.

2.2. The Appointed Date for the proposed Scheme is same as the Effective Date or such other date as may be mutually agreed by the Companies.

2.3. The Effective Date for the proposed Scheme is the date which will be the first day of the month following the month in which Companies mutually acknowledge in writing that all the conditions referred to in Clause 25.1 of the Scheme (as set out in paragraph point 2.4 of this report) have occurred or have been fulfilled, obtained or waived, as applicable, in accordance with this Scheme

2.4. The Scheme is subject to various conditions precedent specified in the Scheme:

a. Obtaining No-objection Certificate from the Stock Exchanges in relation to the Scheme under Regulation 37 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirement) Regulations, 2015 (as amended from time to time);

b. The Scheme being approved by the requisite majorities in number and value of such classes of persons including the respective shareholders and/or creditors, if required, of the Parties, as may be directed by the NCLT or any other Appropriate Authority as may be applicable;

c. The sanction of this Scheme by the NCLT under Sections 230 to 232 of the Act, and other applicable provisions, if any of the Act in favour of the Parties;

d. The certified copy of the order of the NCLT sanctioning the Scheme being filed with the ROC by the Parties as may be applicable; and

e. Any other sanctions and orders as may be directed by the NCLT in respect of the Scheme.

2.5. The equity shares of the Company are listed on NSE and BSE. The Company shall be filing the Scheme along with necessary information / documents with NSE and BSE for their approval under Regulation 37 of the SEBI Listing Regulations.

2.6. The report of the Audit Committee is made in order to comply with the requirements of the SEBI Master Circular, after considering the following:

a. Draft Scheme;

b. Share Entitlement Ratio Report dated September 29, 2023 issued by Mr. Vikram Kumar Singh, Registered Valuer under IBBI having Registration No. IBBI/RV/06/2019/11320 ('the Registered Valuer'), inter-alia, recommending the share entitlement ratio ('Share Entitlement Ratio Report');

c. Fairness opinion dated September 29, 2023 issued by Saffron Capital Advisors Private Limited, Merchant Banker registered with the Securities and Exchange Board of India ('SEBI') having Registration No. INM000011211, on the Share Entitlement Ratio as mentioned in the Share Entitlement Ratio Report ('Fairness Opinion');

d. An auditor's certificate dated September 29, 2023 submitted by M/s. Ray & Ray, Chartered Accountants (Firm registration No. 301072E), Statutory Auditors of the Company, certifying the accounting treatment contained in the Scheme ('Auditor Certificate');

e. Undertaking dated September 29, 2023 by the Company Secretary & Head- Legal, confirming the non-applicability of the requirements under Para A (10)(a) read with Para A (10)(b) of Part I of the SEBI Master Circular dated June 20, 2023 relating to obtaining approval of the majority of public shareholders.

f. Certificate dated September 29, 2023 from M/s. Ray & Ray, Chartered Accountants, Statutory Auditors of the Company, certifying the undertaking in relation to the non-applicability of the requirements under Para A (10)(a) read with Para A (10)(b) of Part I of the SEBI Master Circular dated June 20, 2023 relating to obtaining approval of the majority of public shareholders.

3. Rationale of the Scheme:

3.1. The Demerged Company has 2 (two) distinct businesses viz. (i) Retail Business and (ii) Distribution Business. The retail business operates through 848 retail stores (as on June 30, 2023) and caters to the middle and upper middle-income consumers, while the distribution business operates through a wide network of 732 distributors (as on June 30, 2023) selling to multi-brand-outlets across India and caters to lower and middle-income consumers. The transfer and vesting of the Demerged Undertaking (as defined in the Scheme) comprising of Distribution Business into the Resulting Company pursuant to this Scheme shall be in the interest of all concerned stakeholders including shareholders, customers, creditors, employees and general public, in the following ways:

(i) The Demerged Undertaking and the Remaining Business (as defined in the Scheme) address different market segments with divergic dynamics in terms of business strategy, customer set and distinct capital requirements. The transfer of the Demerged Undertaking into the Resulting Company will enable both the Demerged and Resulting Company to focus on their activities in the respective segments. This would help to improve their competitiveness, operational efficiency, agility and strengthen their position in relevant markets.

(ii) The nature of risk, competition, challenges, opportunities, market segment, target customer and business methods for the Distribution Business (as defined in the Scheme) is separate and distinct from the Remaining Business carried out by the Demerged Company.

(iii) The segregation of the business vertical shall enable them to move forward independently, with specialization building on their respective capabilities. It will also help to channelize resources required for all the businesses to focus on the growing businesses and attracting right talent and providing enhanced growth opportunities to existing talent in line with a sharper strategic focus on each business segment under separate entities.

(iv) The Scheme will also enable the Demerged Company and the Resulting Company to focus and enhance their respective management structure ensuring better and more efficient management control.

(v) Bifurcation of these businesses will enable unlocking value of each vertical thereby paving way for focused growth with a view to create significant stakeholder value, will attract distinct investor base and at the same time allow investors to allocate their portfolio into separate entities, focused on the distinct entities. Further, it will enable independent and distinct capital allocation approach and balance sheet management based on the distinct needs of each business.

(vi) Thus, the demerger would help in achieving the desired operating structure and shall, inter alia, have following benefits:

- Create sector focused companies;
- Attract business specific investors;
- Streamline the management structure;
- Unlock value for shareholders;
- Ring-fence businesses from each other;
- Better risk management; and
- Better Management Bandwidth utilization.

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KHADIM INDIA LIMITED CIN : L19129WB1981PLC034337

REGISTERED OFFICE : 7TH FLOOR, TOWER C, DLF IT PARK, 08 MAJOR ARTERIAL ROAD, BLOCK AF, NEW TOWN (RAJARHAT), KOLKATA - 700 156
CITY OFFICE : 7A, LINDSAY STREET, KOLKATA - 700 087

3.2. The Audit Committee reviewed and noted the Share Entitlement Ratio recommended in the Share Entitlement Ratio Report and confirmed the following ratio:

"1 (One) *fully equity share of the face value of INR 10/- each fully paid-up of the Resulting Company for every 1 (One) equity share of face value INR 10/- each fully paid up held by equity shareholders of the Demerged Company."*

3.3. The Audit Committee reviewed and confirmed the accounting treatment provided in clause 14 of the Scheme which has been certified by the auditors of the Company. Pursuant to the Scheme, in the books of the Demerged Company, the excess / deficit, if any, of the net assets transferred to the Resulting Company after giving effect to investment cancellation as mentioned in Clause 14.1.2 of the Scheme and elimination of balances as mentioned in Clause 14.1.3 of the Scheme, shall be adjusted with the Capital Reserve, General Reserve and Retained Earnings of the Demerged Company. In the books of the Resulting Company, the excess/deficit, if any, of the net assets transferred to the Resulting Company after giving effect to Clause 14.1.6 and Clause 14.1.7 of the Scheme, shall be transferred to the Capital Reserve of the Resulting Company.

3.4. The Fairness Opinion confirmed that the Share Entitlement Ratio as recommended by the Registered Valuer, is fair and reasonable.

4. Impact of the Scheme on the shareholders

4.1. Pursuant to the Scheme, in consideration for the Demerger, the Resulting Company will issue its equity shares to the shareholders of the Demerged Company based on the Valuation Report and in the same proportion in which the shareholders hold the shares in the Demerged Company. The overall economic interest of the equity shareholders of the Demerged Company shall remain the same in both the Companies.

4.2. The provisions of this Scheme have also 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.

4.3. Based on the above and as there is no proposed change in the shareholding pattern of the Company pursuant to the Scheme, the Committee is of the informed opinion that the proposed Scheme is in the best interests of the shareholders of the Company and not detrimental to the interest of the shareholders, including the minority shareholders of the Company.

4.4. The Scheme would create sector focused companies, streamline the management structure and unlock value for shareholders. Further, the need for the demerger and rationale of the Scheme is set out in paragraph 3.1 of this report.

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5. Cost benefit analysis of the Scheme:

5.1. Although the scheme would lead to incurring of some costs towards its implementation, however, the benefits of the Scheme over a longer period are expected to far outweigh such costs for the stakeholders of the Company.

6. Synergies of business of the entities involved in the Scheme are set out in paragraph 3.1 above

7. Recommendations of the Audit Committee

7.1. The Audit Committee after due deliberations and due consideration of all the terms of the draft Scheme, Share Entitlement Ratio Report, Fairness Opinion, rationale of the Scheme, accounting treatment, impact of the Scheme on the shareholders and other stakeholders, cost benefit analysis of the Scheme and the specific matters mentioned above, recommends the draft Scheme for favorable consideration by the Board of the Company, the Stock Exchanges, SEBI and other applicable regulatory authorities.

This report of the Committee is made in order to comply with the requirements of Paragraph (A)(2)(c) of Part – I of the SEBI Master Circular after considering the necessary documents.

For the Audit Committee of Khadim India Limited

Indra Nath Chatterjee
Chairman - Audit Committee
DIN: 00122677

Place: Mumbai
Date: September 29, 2023