

Annex - D  
Pg no - 58

**REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF ROYAL CUSHION VINYL PRODUCTS LIMITED FOR RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT AMONGST ROYAL SPINWELL AND DEVELOPERS PRIVATE LIMITED AND ROYAL CUSHION VINYL PRODUCTS LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS AT ITS MEETING HELD ON JANUARY 4, 2022**

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Members Present:

1. Mrs. Avani Pandit– Chairman
2. Mrs. Harsha Shah – Member
3. Mr. Jayesh Motasha - Member

**1. Background**

- 1.1. The Proposal to consider and recommend draft Scheme of Arrangement in the nature of merger / amalgamation of Royal Spinwell and Developers Private Limited ("**Transferor Company**") with Royal Cushion Vinyl Products Limited ("**Transferee Company**" / "**Company**") and their respective shareholders and creditors under Sections 230 to 232 of the Companies Act, 2013 read with applicable rules made thereunder ("**Scheme**") was placed before and considered by members of the Audit Committee at its meeting held on January 4, 2022.
- 1.2. The Equity Shares of RCVPL are listed on BSE Limited ("**BSE**"). The Company will be filing the Scheme along with the necessary documents / information with the BSE for their No Objection or No Observation Letter pursuant to Regulation 37 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**SEBI LODR Regulations**") and applicable statutory provisions.
- 1.3. The Report of the Audit Committee is made to comply with the requirements of SEBI LODR Regulations and master circular in relation to scheme of arrangement issued by SEBI having No. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021 covering all circulars issued by SEBI in relation to scheme of arrangement including any amendments or modifications thereof, and any other circular issued pursuant to Regulations 11, 37 and 94 of SEBI LODR Regulations ("**SEBI Master Circular**"), considering following:
  - i. Draft Scheme of Arrangement, duly initialed by the director of the Company for the purpose of identification;
  - ii. Valuation Report dated December 31, 2021 issued by CA Mayur Popat, an independent registered valuer (Registration No. IBBI / RV / 006 / 2019 / 11173) ("**Registered Valuer**") appointed for recommending the fair share exchange ratio for the purpose of this Scheme;

- iii. Fairness Opinion Report dated January 4, 2022 issued by Khambatta Securities Limited Category I SEBI Registered Merchant Banker (Registration No. INM000011914) providing fairness opinion ("**Fairness Opinion**") on the share exchange ratio recommended in the Valuation Report issued by Registered Valuer; and
- iv. Draft certificate to the effect that the Scheme is in compliance with applicable Accounting Standards specified by the Central Government in Section 133 of the Companies Act, 2013, from the Statutory Auditors of the Transferee Company i.e., Bipin & Co., Chartered Accountants (Firm's Registration No. 101509W).

## 2. Proposed Scheme

- 2.1. The Scheme, inter-alia, provides the following:
  - i. amalgamation / merger of Royal Spinwell and Developers Private Limited with Royal Cushion Viny Products Limited; and
  - ii. Various other matters consequential or otherwise integrally connected herewith
- 2.2. Appointed Date of the Scheme is October 01, 2021.
- 2.3. The Effective Date for the Scheme means the day on which last of the conditions specified in Clause 21 of the Scheme are complied with.
- 2.4. The Scheme would be subject to the sanction or approval of the National Company Law Tribunal, SEBI, Stock Exchanges, Shareholders, Creditors and other Appropriate Authorities (as defined in the Scheme).

## 3. Need for the merger and Rationale of Scheme

- 3.1. The Transferor Company was incorporated with an object to primarily engage in the business of manufacturing and trading in yarn, fibers and textiles. The Transferee Company is engaged in the business of manufacture and supplying of PVC floor covering, PVC sheets and PVC leathercloth. Both the Companies are managed and operated by the same set of controlling shareholders group.
- 3.2. RCVPL has a manufacturing plant / factory located at Garadhiya, Taluka Savli, District Vadodara, Gujarat on a part of the larger piece and parcel of land (referred to as the "**RCVPL Larger Land**"). The said manufacturing plant / factory is set-up on a small part of the said Larger Land (referred to as the "**RCVPL Larger Land in Use**") and the balance area of the said RCVPL Larger Land apart from the RCVPL Larger Land in Use is vacant and surplus (referred to as the "**RCVPL Surplus Land**").
- 3.3. The management of RCVPL has been exploring and evaluating to sell and monetise the surplus assets of RCVPL which includes RCVPL Surplus Land, which are not being used

for its core business operations with an intent to generate funds which can be better deployed in its core business operations. In this regard, RCVPL has recently entered into a Memorandum of Understanding ('MOU') with a party ('Other Party to the MOU') who has expertise to sell and market industrial land parcels / plots whereby certain common minimum arrangement was agreed upon in relation to sale of RCVPL Surplus Land to ultimate interested buyers, who may be introduced by the Other Party to the MOU.

- 3.4. RSDPL is a group company of RCVPL and is related to the promoter and promoter group of RCVPL. RSDPL also owns and possesses a vacant piece and parcel of land at Garadhiya, Taluka Savli, District Vadodara, Gujarat, which is adjoining to and adjacent to RCVPL Larger Land (referred to as the "**RSDPL Land**"). RSDPL has also been exploring and looking to find suitable buyers / interested parties who are willing to purchase the RSDPL Land either in entirety or in parts at attractive market rates to maximise the monetisation from the surplus assets.
- 3.5. In the stated background and in order to consolidate the adjoining land parcels, namely RCVPL Surplus Land and RSDPL Land, owned by both the companies viz. RCVPL and RSDPL, with an objective to be in a better position to negotiate, market and monetise the consolidated larger land parcels to realise its full potential in an efficient and optimum manner including by way of joint-development, co-development, industrial plotting, outright sale etc., the management of RCVPL and RSDPL has proposed a scheme of arrangement under the provisions of the section 230 to 232 of the Companies Act, 2013 to provide for the merger of RSDPL into RCVPL.
- 3.6. The Scheme provides an opportunity to RCVPL to acquire and aggregate the RSDPL Land along with RCVPL Surplus Land to create a larger pool of land which can be monetised and marketed at better commercial considerations and at the same time, discharge the consideration for acquisition / aggregation of RSDPL Land through merger of RSDPL into RCVPL in non-monetary form by issue of its securities to the shareholders of RSDPL.
- 3.7. Further, merger of RSDPL with RCVPL will lead to a more efficient utilization, exploitation and monetisation of larger land parcel, better realisation of the cash / funds which would be generated from such monetisation of assets and larger pool of funds which can be better deployed for further business operations.
- 3.8. The merger of Companies will also provide ancillary benefits in the form of administrative and operational rationalization and promote organizational efficiencies with the achievement of greater economies of scale, reduction in overheads and improvement in various other operating parameters including administrative, managerial and other expenditure, and optimal utilization of resources by elimination of duplication of activities and related costs.

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3.9. Thus, with an intent to achieve aforesaid objectives and further in order to consolidate, streamline and effectively merge the Transferor Company and the Transferee Company in a single entity, it is intended that the Transferor Company be merged / amalgamated with the Transferee Company

#### **4. Impact of the Scheme on the shareholders of the Company on amalgamation with Transferee Company**

4.1. Pursuant to the Scheme, shares of the Transferee Company are proposed to be issued to the shareholders of the Transferor Company on the basis of share exchange ratio, as recommended by the Registered Valuer. Further, the Fairness Opinion report from Merchant Banker has confirmed that the share exchange ratio as recommended by the Registered Valuer is fair for both the Companies and their respective shareholders.

4.2. The Scheme has been drafted keeping in mind the provisions of section 2(1B) of the Income Tax Act, 1961 and therefore it may not have any adverse tax implications.

4.3. The Scheme is expected to be beneficial to the Companies and its shareholders and all other stakeholders in large and is not detrimental to any of the shareholders of the Company.

#### **5. Synergies of business of the entities involved in the Scheme**

As elaborated in the rationale of the Scheme, the amalgamation of the Transferor Company with the Transferee Company provides an opportunity to the Transferee Company to acquire and aggregate the RSDPL Land along with RCVPL Surplus Land to create a larger pool of land which can be monetised and marketed at better commercial considerations and at the same time, discharge the consideration for acquisition / aggregation of RSDPL Land through merger of RSDPL into RCVPL in non-monetary form by issue of its securities to the shareholders of RSDPL. Therefore, merger of RSDPL with RCVPL will lead to a more efficient utilization, exploitation and monetisation of larger land parcel, better realisation of the cash / funds which would be generated from such monetisation of assets and larger pool of funds which can be better deployed for further business operations. Also, it will result into more productive and optimum utilization of various resources by pooling of the managerial, technical and financial resources, economy of scales, reduction in overheads including administrative, managerial and other expenditure, operational rationalization, organizational efficiency and optimal utilization of resources by elimination of unnecessary duplication of activities and related costs.

#### **6. Cost benefit analysis of the Scheme**

Keeping in view of synergies and the cost benefits expected (refer clause 3 above) the Audit Committee is of the view that the proposed Scheme of Arrangement will provide

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may benefits to the Transferee Company including acquisition of adjoining land parcel viz. RSDPL Land without requiring immediate outflow of cash resources as the consideration is proposed to be discharged by issue of shares of the Transferee Company, while there would be non-material procedural costs to be expended by the Transferee Company to implement the Scheme proposal. Thus, considering all aspects, the Audit Committee is of the considered view that benefits would outweigh the costs.

## **7. Recommendations of the Audit Committee**

The Audit Committee after due deliberations and due consideration of all the terms of the draft Scheme, Valuation Report, Fairness Opinion Report and in view of above points, recommends the Draft Scheme for favourable consideration by the Board of Directors of the Company, the BSE, and SEBI and other statutory or regulatory authorities.

By Order of the Audit Committee

For and on behalf of **Royal Cushion Vinyl Products Limited**

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**Avani Pandit**

**Chairman of the Audit Committee**

DIN: 08386003

**Place: Mumbai**

**Date: January 25, 2022**

Pg no- 63

