



Audit Committee Report of Padmanabh Industries Limited dated 30th June, 2023

Members Present:

Ms. Shvetalben Dataniya	-	Chairman
Mr. Pranav Vajani	-	Member
Mr. Chiragkumar Parmar	-	Member

Background:

The Board of Directors of Padmanabh Industries Limited ("PIL" or "the Company") is considering to undertake Reduction of Capital under Section 66 of the Companies Act, 2013 and other applicable Rules between the Company and its shareholders.

The Company has placed before the Audit Committee the draft scheme of Capital Reduction of Padmanabh Industries Limited, pursuant to Section 66 and all other applicable provisions of the Companies Act, 2013 (hereinafter referred to as "the Scheme"), for recommendation as required under Securities Exchange Board of India SEBI Circular no. CFD/DIL3/CIR/2017/21 dated March 10, 2017.

In view of the above circular, Members of the Audit Committee of the Company discussed and approved the proposal for Capital Reduction vide a resolution passed in the meeting dated 30th June, 2023 and have made this report in compliance with the aforesaid Circular after considering the Draft Scheme of Reduction of Capital, after perusing inter alia the following necessary documents ("Documents"):

- 1) Scheme of Capital Reduction of Padmanabh Industries Limited.
- 2) Financial Statements of the Company for the financial year 2022-23.
- 3) Auditors' report of the Company for the period ended on 31st March, 2023.
- 4) Draft Certificate for non-applicability of the requirement of obtaining the valuation report obtained from the Registered Valuer.
- 5) Fairness Opinion obtained from an Independent Merchant Banker.
- 6) Auditors Certificate issued by M/s. VSSB & Associates Chartered Accountants, Statutory Auditors of the Company, pursuant to Para 5 of Part 1A of SEBI Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2020/249 dated December 22, 2020, confirming that the accounting treatment in the scheme is in Compliance.
- 7) Undertaking duly certified by the Statutory Auditor regarding non-applicability of sub para 10(a) and (b) of Part IA of SEBI Master Circular No. of SEBI/HO/CFD/DIL1/CIR/P/2020/249 dated December 22, 2020.
- 8) Other Annexures for the Draft Scheme of Reduction of Capital.

Proposed Capital reduction:

The Audit Committee noted that, the Draft Scheme of Reduction of Capital is for reducing the capital by 98%, the reason being the writing off the accumulated losses of the Company. The salient features of the proposed capital reduction are as follows:

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College, Ashram Road, Ahmadabad City, Gujarat-380014, India
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This Scheme and with effect from the Appointed Date, as an integral part of the scheme, the subscribed, issued and paid-up Equity Share Capital shall stand reduced or otherwise altered from Rs. 6,07,75,000/- (Six Crores Seven lakhs Seventy Five Thousand Only) divided into 60,77,500 (Sixty lakhs Seventy Seven Thousand Five Hundred) Equity Shares of Rs. 10/- (Rupees Ten Only) each to Rs. 12,15,500/- (Rupees Twelve Lakhs Fifteen Thousand Five Hundred Only) divided into 1,21,550 (One Lakh Twenty One Thousand Five Hundred and Fifty) Equity Shares of Rs. 10/- (Rupees Ten Only) each whereby 98% of existing share capital i.e. 59,55,950 (Fifty Nine Lakhs Fifty Five thousand Nine Hundred and Fifty) Equity Shares of Rs. 10/- (Rupees Ten Only) each is extinguished and cancelled.

Upon Scheme being effective, 2 new Equity Share of Rs. 10/- each shall be issued against 100 existing Equity Shares of Rs. 10/- each to the existing shareholders of the Company.

Shares will be issued to shareholders whose name appears in the Register of Members of the Company on the Record Date to be fixed by the Board of Directors of the Company.

The Audit Committee noted that the proposed scheme would result in the following benefits:

- a. The Company has accumulated loss of Rs. 6,08,26,584/- (Rupees Six Crores Eight Lakhs Twenty-Six Thousand Five Hundred and Eighty-Four Only) as on 31st March 2023. The continue losses have substantially wiped off the value represented by the Share capital thus the Financial Statement does not reflect the correct picture of the health of the company.
- b. The reduction of capital in the manner proposed would enable the Company to have a rational structure which is commensurate with its remaining business and assets.
- c. Hence, the proposed reduction will be for the benefit of the Company and its shareholders, creditors and all concerned as a whole.

I. Need and Rationale for the Reduction of share capital:

The Company has accumulated loss of Rs. 6,08,26,584/- (Rupees Six Crores Eight Lakhs Twenty-Six Thousand Five Hundred and Eighty-Four Only) as on 31st March 2023. The continue losses have substantially wiped off the value represented by the Share capital thus the Financial Statement does not reflect the correct picture of the health of the company.

II. Synergies of the Business of the entities involved in the scheme:

Due to huge accumulated loss in the Financial Year 2022-23, the financial statement does not reflect the turnaround in the business of the Company. Thus, with a view to ensure that:

- a) The financial statements of the Company reflect its true and fair financial position; and
- b) To obliterate the share capital being lost and not represented by available assets of the Company, it is necessary to carry out reduction of share capital of the Company.

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- c) The proposed reduction of share capital in the manner proposed herein would enable the Company to rationalize its capital structure and present a true and fair financial position of the Company, commensurate with its business and assets.
- d) The proposed restructuring under the Scheme, if approved, would enable the Company to explore opportunities for the benefit of its Shareholders, including in the form of dividend payments in terms of the applicable law.
- e) The Scheme, if approved may enable the Company to avail business opportunities that it was unable to take advantage of, because of its accumulated loss.
- f) The proposed Scheme will enable the Company to use amount which is lying unutilized in the Securities Premium Account of the Company in an effective manner for the benefit of the Company.
- g) The Scheme if approved would provide greater flexibility to the Company in raising funds either from the Capital Market or from any Bank / Financial Institutions in the form of Equity or debt depending upon the business needs of the Company.

Hence, the proposed reduction of share capital is in the interest of the Company and its shareholders, creditors and all other stakeholders.

III. Impact of the Scheme on the Shareholders:

- a) Upon confirmation of Reduction of Capital by NCLT and the approval of the aforesaid authorities becoming effective and operative 59,55,950 (Fifty Nine Lakhs Fifty Five thousand Nine Hundred and Fifty) Equity Shares of Rs. 10/- (Rupees Ten Only) of the Company held by all its members shall stand cancelled, extinguished and rendered invalid.
- b) There is no detrimental impact on the shareholders and this reduction shall further allow the creation of distributable reserves for dividend which are held up due to accumulated losses.

IV. Cost Benefit analysis of the Scheme:

- a) The financial restructuring will help the Company to reflect the true shareholder value which would place the Company in a position to pay dividend or raise capital in future at lower interest cost.
- b) The Scheme of Capital Reduction does not involve any direct cost to the Company as there is no payment/ pay-out involved to any shareholder or other stakeholders apart from paying fractional entitlements.

Salient features of the Scheme are as under:

This Scheme is presented as a scheme of capital reduction of Padmanabh Industries Limited, pursuant to Section 66 and all other applicable provisions of the Companies Act, 2013. The Salient features of the Scheme inter alia are as follows:

1. The Scheme provides for the reduction of Equity share capital of Padmanabh Industries Limited pursuant to Section 66 and other relevant provisions of the Companies Act, 2013.

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2. The Scheme also provides for various other matters consequential, supplemental and/or otherwise integrally connected herewith.

Recommendation of the Audit Committee:

Taking into consideration the proposed Scheme, Fairness Opinion, Accounting Treatment Certificate, Draft Non - applicability of Valuation Report Certificate and Undertaking from Auditor, needs, rationale and impact of the Scheme and cost benefits analysis, the Audit Committee confirms that the proposed Scheme is not detrimental to the shareholders of the Company and is in the best interest of the Company and its shareholders, creditors and all stakeholders. Thus, the Audit Committee hereby recommends the proposed Scheme to the Board of Directors of the Company for its consideration and approval.

**For and On behalf of Audit Committee of
Padmanabh Industries Limited**

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Shwetal Datania
Chairman of Audit Committee



Date: 30.06.2023
Place: Ahmedabad

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