

KOTHARI INDUSTRIAL CORPORATION LIMITED

CIN No.L24110TN1970PLC005865

"Kothari Buildings" No.114/117, Mahatma Gandhi Salai

Nungambakkam, Chennai - 600 034

Ph : +91 44 2833 4565 | Fax : +91 44 2833 4581

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REPORT OF THE AUDIT COMMITTEE OF KOTHARI INDUSTRIAL CORPORATION LIMITED ("THE COMPANY") RECOMMENDING THE DRAFT SCHEME OF REDUCTION OF CAPITAL OF THE COMPANY AND THEIR RESPECTIVE SHAREHOLDERS IN ACCORDANCE WITH THE PROVISIONS OF SECTION 66 AND OTHER APPLICABLE PROVISIONS OF THE COMPANIES ACT, 2013.

To,
The Board of Directors
Kothari Industrial Corporation Limited
Kothari Bldgs, 20,
Nungambakkam High Road,
Chennai- 600035

1. Background

- 1.1 A meeting of the Audit Committee of the Company was held on 31st October, 2020 to consider and recommend the proposed Scheme of Reduction of Capital of the Company and their respective shareholders under section 66 of Companies Act, 2013 and other applicable provisions of the Companies Act, 2013 ("Scheme").
- 1.2 The Scheme inter alia provides for Capital Reduction of the Company by cancelling/extinguishing the 66,27,000 Equity Shares issued on Preferential basis to allottees as provided I Schedule I ("Allottees") on 31st March, 2016. At that given point in time, the Company was suffering losses and was in dire needs of funds to run its operations, therefore it decided to use the subscription money and allotted the said equity shares on preferential basis. The Company intends to undergo the Capital Reduction in order to resolve the difference between the Issued and Listed Capital on BSE Limited. The Equity Shares of the Company are listed on BSE limited but presently suspended due to penal reasons. The Company will be filing the Scheme of Capital Reduction along with necessary information / documents to the BSE limited.
- 1.3 Ideally, the Company is required to refund the entire subscription amount to the Allottees, however, the Allottees have decided to waive off the remaining amount due to the cash flow constraints faced by the Company. Hence, once the Capital Reduction Scheme is approved, the Company will be required to refund the monies amounting to Rs. 66,27,000 (Rupees Sixty Six Lakhs Twenty Seven Thousand) to the Allottees. Further, the Scheme of Capital Reduction is in the interest of the Company and its public shareholders as by virtue of this Capital Reduction, the shareholding of the public shareholders will increase.
- 1.4 This report of Audit Committee is made in order to comply with the requirement of Securities and Exchange Board of India ("SEBI") circular No. CFD/DIL3/CIR/2017/21 dated 10th March, 2017 as amended from time to time and read with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.



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1.5 The following documents were placed before the Audit Committee:

- a) Draft Scheme of Reduction of Capital.
- b) Valuation Report dated 28th October, 2020 issued by Mr. L.K.Sivaramakrishnan (Registered Valuer).
- c) Fairness Opinion Report dated 31st October, 2020 issued by Mark Corporate Advisors Private Limited; a SEBI registered Merchant Banker.
- d) Certificate obtained from the Statutory Auditors of the Company i.e. Arockiasamy & Raj, Chartered Accountants to the effect that the accounting treatment contained in the Scheme is in compliance with all the applicable Accounting Standards notified under Companies Act, 2013 and other generally accepted accounting principles in India.

1. Proposed scheme

1.1 The Audit Committee noted the rationale and the purpose of the Scheme which, inter-alia, are as follows:

- a) The equity shares of the Company have been suspended on the BSE since July 18, 2000 due to for non-payment of listing fees, which payment has since been made.
- b) In April 2009, the Company made an application to the Hon'ble High Court of Madras under Sections 78, 100 and 101 of the Companies Act, 1956 to reduce its share capital and sub-divide its shares into shares of a smaller amount, i.e. from Rs.10 per share to Rs.5 per share.
- c) On October 22, 2009, the Board of Directors of the Company approved the issue of 75,26,725 (*seventy-five lakh twenty-six thousand seven hundred and twenty five*) fully paid-up equity shares of Rs.5 (*Rupees five only*) each, aggregating to Rs.3,76,33,625 (*Rupees three crores seventy-six lakhs thirty-three thousand six hundred and twenty five only*) on preferential basis to the Allotees. The issue of the aforesaid equity shares on a preferential basis was subject to approval from its shareholders and the Hon'ble High Court of Madras to reduce its share capital and



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sub-divide its shares. At the time of passing the resolution to issue the aforesaid equity shares on a preferential basis, the Company Petition No. 191 of 2009 dated April 8, 2009 was pending with the Hon'ble High Court of Madras.

- d) On December 12, 2009, the shareholders of the Company approved the issue of the aforesaid equity shares on preferential basis which were subject to approval of the Hon'ble High Court of Madras to reduce its share capital and sub-divide its shares.
- e) On August 31, 2010, the Hon'ble High Court of Madras confirmed the sub-division of the equity shares from Rs.10 per share to Rs.5 per share. The Hon'ble High Court of Madras also approved the write-off of an amount of Rs.8,64,53,000 (*Rupees eight crores sixty-four lakhs fifty-three thousand only*) out of Rs.12,90,06,000 (*Rupees twelve crores ninety lakhs six thousand only*) from the share premium account of the Company. On write-off of Rs.8,64,53,000 from the share premium account, the paid-up share capital of the Company was reduced from Rs.12,48,38,850 (*Rupees twelve crores forty-eight lakhs thirty-eight thousand eight hundred fifty only*) to Rs.6,24,19,425 (*Rupees six crores twenty-four lakhs nineteen thousand four hundred and twenty-five only*).
- f) The Company is a listed public company. The equity shares of the Company are listed on the BSE and as such, must comply with the ICDR Regulations (erstwhile DIP Guidelines) and the Listing Regulations (erstwhile Listing Agreement). Ideally, under the ICDR Regulations, the Company should have issued and allotted the aforesaid equity shares within fifteen (15) days of receiving shareholders' approval or within fifteen (15) days of receipt of the last of the regulatory approval (in this case the approval of the Hon'ble High Court of Madras), whichever is later.



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- g) On August 31, 2010, the Hon'ble High Court of Madras confirmed the subdivision of the Equity Shares from Rs.10 per share to Rs.5 per share and subsequent reduction of share capital of the Company. The Company, however, received a certified copy of the order only on November 1, 2010. Upon receipt of the said order, the Company, on November 25, 2010, made an application to the BSE seeking in-principle approval to issue the aforesaid equity shares on a preferential basis. The Company paid the fee of Rs.55,150 (*Rupees fifty-five thousand one hundred fifty*) along with the application seeking in-principle approval.
- h) Subsequent to making the application for in-principle approval to the BSE, the Company received Rs.3,31,35,000 (*Rupees three crores thirty-one lakhs thirty-five thousand only*) as advance share subscription monies towards subscription of the aforesaid equity shares on a preferential basis. The Company expected to receive the in-principle approval from the BSE and then appropriate the advance share subscription monies towards issue of the aforesaid equity shares on a preferential basis.
- i) The Company has till date not received the in-principle approval from the BSE to issue the aforesaid equity shares. Ideally, the Company should have returned the advance share subscription monies to the Allottees soon thereafter; however, due to lapse of time and oversight and change in the management of the Company, the Company continued to retain the share subscription monies. Since the Company had not allotted the aforesaid equity shares, the Company did not use any part of the share subscription monies then.
- j) While waiting to receive the BSE in-principle approval, the Company proposed a restructuring plan and was working with its advisors to identify investors to infuse funds into the Company to meet its working capital requirements and to pay its debts.



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- k) Due to the global slowdown in 2013-14 and 2014-15, the demand for its products decreased over a period of time and the Company faced losses in its operations. Due to this sudden and unprecedented setback in business, the Company faced losses for three continuous financial years ending on 2013, 2014 and 2015. The Company suffered a loss of Rs.16,39,57,000 (*Rupees sixteen crores thirty-nine lakhs fifty-seven thousand only*) during these three financial years, which resulted in severe cash flow crisis. Although, the Company was taking steps to revive itself and clear its debts, the Company continued to make losses for the financial year ended 2016 to the tune of Rs.5,67,00,000 (*Rupees five crores sixty-seven lakh*) resulting from the after effects of the global slowdown.
- l) With the global slowdown having an adverse effect on business and no investor willing to infuse money into the Company, the Company was in dire need of funds to run its operations. With no other option left, the Company decided to use the share subscription monies but only after issue of the aforesaid equity shares. On March 31, 2016, the Company allotted 66,27,000 (*sixty-six lakhs twenty-seven thousand*) equity shares ("*Fresh Equity Shares*") to the Allottees by appropriating the share subscription monies.
- m) Upon allotment of the Fresh Equity Shares, on January 6, 2017, the Company informed the BSE of allotment of the Fresh Equity Shares. The Company informed the BSE that the Fresh Equity Shares were issued pursuant to the provisions of the amendment notification issued by the Ministry of Corporate Affairs on the Companies (Acceptance of Deposits) Rules, 2014 bearing number GSR 241(E), which mandates that if a company had received any amount by way of subscriptions to any shares before April 1, 2014, against which the allotment is pending, the company shall, either return such amounts to the persons from whom these were received or allot shares or comply with these rules.



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- n) In compliance with the SEBI Circular No. CIR/CFD/CMD/6/2015 dated October 13, 2015, the Company, on November 21, 2017, submitted a Uniform Fresh Listing Agreement dated November 16, 2017 to the BSE, executed by the authorised signatory of the Company. The execution of the Uniform Fresh Listing Agreement was approved by the Board of Directors of the Company in their meeting held on February 29, 2016.
- o) The Company, prior to and after issue of the Fresh Equity Shares, made several applications to the BSE for revocation of suspension of its shares. In reply thereto, the BSE asked the Company to comply with the norms for revocation of suspension failing which the BSE would initiate delisting of the shares of the Company.
- p) The Company complied with all norms for revocation of suspension except the explanation for difference between issued and listed capital of the Company. The Company also explained to the BSE that the difference between the issued and listed capital is because the Fresh Equity Shares have not been listed till date.
- q) The Company acknowledges that it did not comply with certain laws in issue of the Fresh Equity Shares without first revoking the BSE suspension order. The Company desires to rectify its non-compliances and is willing to comply with any directions to ratify the Fresh Equity Shares and revoke the BSE suspension order. In fact, the Company has neither declared dividend on the Fresh Equity Shares nor counted their votes to approve any resolution. The Fresh Equity Shares have been kept in abeyance by the Company and the only need to issue the Fresh Equity Shares was the dire need of funds by the Company due to the global slowdown. These Fresh Equity Shares are in physical format only and have not yet been dematerialised, which shows that neither the Company nor the Allottees had any intentions to transfer these shares to any other person.

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- r) The Fresh Equity Shares now form part of the current equity share capital of the Company. To rectify the issue of the Fresh Equity Shares, the Company is willing to annul the issue and reduce the issued, subscribed and paid-up equity share capital of the Company and revert to the issued, subscribed and paid-up equity share capital prior to issue of the Fresh Equity Shares.
- s) The Company, proposes to reduce its issued, subscribed and paid-up equity share capital from Rs.9,55,54,425 divided into 1,91,10,885 equity shares of Rs.5 each to Rs.6,24,19,425 divided into 1,24,83,885 equity shares of Rs.5 each by cancelling and extinguishing 66,27,000 equity shares each of Rs.5 each issued and allotted to the persons as set out in Schedule I of this Scheme ("*Capital Reduction*").
- t) This Scheme of Capital Reduction is in the interest of the Company and its public shareholders as by virtue of this Capital Reduction, the shareholding of the public shareholders will increase. Due to the cash flow restraints in the Company, the Allottees have agreed to waive off Rs. 4 per share i.e. once the Capital Reduction is approved, the Company will refund Rs.1 per share amounting to Rs.6627000 (Sixty Six Lakhs Twenty Seven Thousand) to the Allottees, such that the reduced share capital is equal to and matches the listed share capital. The Company will then make an application to the BSE, along with the order for Capital Reduction, requesting the BSE to revoke suspension of its shares.
- 1.2 The Audit Committee noted the Objects/ Benefits arising out of the Scheme which, inter-alia, are as follows:
- (a) This Scheme, when approved, would enable the Company to comply with the norms for revocation of suspension by rectifying the difference between the issued capital and the listed capital. The revocation of suspension would provide an opportunity to the Company to raise further capital to fund new projects/undertake expansions/diversifications and make acquisitions.



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- (b) The revocation of suspension would also enable the Company to provide its shareholders a trading platform and thus provide ready marketability and liquidity to its shareholders. The Scheme would provide its shareholders the opportunity to realise the value of their investments.
- (c) The approval of the Scheme and in revocation of suspension from trading will improve the Company's visibility and credibility among financial institutions and investors.
- (d) The books of the Company would represent its financial position in a proper way and bring it in line with the listed capital of the Company which would help the Company position itself better in the market and undertake business activities efficiently. This would be value accretive to the shareholders as well as their holdings would yield better results.
- (e) The reduction of capital in the manner proposed in this Scheme would enable the Company to have a rational structure which is commensurate with its remaining business and assets.
- (f) The Scheme, when 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.

The Scheme is merely a reduction in the share capital of the Company prepared in terms of Section 66 of the Act, read with the Rules, and other applicable provisions of the Act (to the extent applicable) and does not envisage transfer, conveyance or vesting of any of the properties and/ or liabilities of the Company to any person or entity.

The reduction of share capital does not entail diminution of any liabilities of the Company in respect of any unpaid capital nor entails payment to any shareholder of any paid-up capital, except to the Allottees. Further, the reduction of capital does pursuant to this Scheme does not result in any prejudice to the shareholders, creditors, or any other stakeholders of the Company nor for that matter adversely affect the ordinary operations of the Company or its ability to honour its commitments or to pay its debts in the ordinary course of its business.



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1.3 The Audit Committee reviewed the Valuation Report, Fairness Opinion and noted the recommendations made therein. Further, the Fairness Opinion confirmed that the Scheme is fair and reasonable to the Shareholders of the Company.

1.4 The Audit Committee reviewed the certificate of Accounting treatment issued by Arockiasamy & Raj, Chartered Accountants to the effect that the accounting treatment contained in the Scheme is in compliance with all the applicable Accounting Standards notified under Companies Act, 2013 and other generally accepted accounting principles in India.

2. Recommendation of Audit Committee

Audit committee after due deliberations and consideration of all the terms of the Draft Scheme, Valuation Report, Fairness Opinion and the specific points mentioned above, recommended the Scheme for favorable consideration by the Board of Directors of the Company, BSE Limited and Securities and Exchange Board of India.

By Order of Audit Committee

For and on behalf of Kothari Industrial Corporation Limited

Dilip Machado

Chairman of Audit committee

Place:Chennai

Date: 31.10.2020

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Sr. No.	Name of the Allottees (Promoter/ Promoter Group)	Equity Shares
1.	N. Krishnaji Sukkal	60,000
2.	G. Mohan Das	60,000
3.	K. Santhanam	20,000
4.	K. Rabindran Swamidason	25,00,000
5.	Rakesh Garg	18,40,000
6.	N. Ravichandran	1,00,000
7.	N. Santharam	5,000
8.	N. Srinivasan	40,000
9.	D. Ravindra Reddy	60,000
10.	T. Sankaran	40,000
11.	Pradip D Kothari	19,00,000
12.	A. Raja	2,000
	Total	66,27,000

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