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REPORT OF AUDIT COMMITTEE HELD ON 10TH DECEMER, 2019 OF OVOBEL FOODS LIMITED RECOMMENDING THE SCHME OF REDUCTION OF CAPITAL

This Report of the Audit Committee is issued in terms of Para 2(c) of Annexure 1 of the SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 ("SEBI Circular") as amended by SEBI Circular Number CFD/DIL3/CIR/2018/2 dated January 3, 2018. The requirements of the said SEBI circular, inter alia, make it mandatory for the Audit Committee to recommend the draft Scheme of Reduction of Capital.

A meeting of the Audit Committee of Ovobel Foods Limited (the Company) was held on 14th August, 2019 and 10th December, 2019 inter alia, to consider and recommend the Reduction of Capital, the Scheme of Reduction of Capital of Ovobel Foods Limited and to take note of valuation report and fairness opinion.

The aforesaid Audit Committee was attended by the following committee members:

1. Satish Narayana Swamy
2. Narendra Haldawar
3. Swapan Kumar Majumder

Satish Narayana Swamy, Chairman of the Audit Committee chaired the aforesaid Audit Committee meeting.

The following documents were considered by the Audit Committee meeting:

- a) Draft Scheme of Reduction of Capital of the Company;
- b) Annual reports of the Company for the Financial Years 2016-17, 2017-18 and 2018-19;
- c) Pre and Post Reduction Shareholding Pattern of the Company;
- d) A certificate from the Nara Hari & Raghavendra, Chartered Accountants on the Accounting treatment in accordance with section 133 of the Companies Act, 2013

Valuation Report of M/s Guru and Jana, Chartered Accountants, Bangalore determining the Report on Valuation of Equity Shares for Reduction of Share Capital by adjusting the advance OTS against the Share Capital of the Company pursuant to the Scheme of Reduction of Share Capital and the fairness opinion report issued by Resurgent India Ltd on Valuation of equity shares of Ovobel Foods Limited done by Guru and Jana, Chartered Accountants

The Audit Committee noted the rationale for the Capital Restructuring is as under:

- a. The Company had availed the financial assistance from Karnataka State Industrial and Infrastructure Development Corporation Limited ("KSIIDC") in the form of Term Loan and Corporate Loan of Rs. 50.00 Lakhs (Rupees Fifty Lakhs Only) and Rs. 75.00 Lakhs (Rupees Seventy-Five Lakhs Only) respectively in terms of the Agreement dated 31st May, 1993.
- b. The Company had also availed a financial assistance in the form of Soft Loan from Ministry of Food Processing Industries (MFPI) Government of India through KSIIDC and guaranteed by the later on its repayment obligations in terms of Tripartite Agreement dated 15th March 1995.
- c. In addition to the above, the Company had entered into an Agreement on 31st May 1993 with KSIIDC whereby KSIIDC had agreed to subscribe to the Equity Share Capital of Rs. 50.00 Lakhs (Rupees Fifty Lakhs Only) or such amount as may be agreed by the KSIIDC on the terms and conditions stipulated in the said agreement. Accordingly, KSIIDC had invested a sum of Rs. 50.00 Lakhs (Rupees Fifty Lakhs Only) by subscribing to 5,00,000 (Five lakhs Only) Equity Shares of Rs. 10/- each aggregating to Rs. 50,00,000/- (Rupees Fifty Lakhs Only).
- d. Further, in the year 1995 and 1996 the Ministry of Food Processing Industries, Government of India. ("MFPI") had advanced a sum of Rs. 1,00,00,000 (Rupees One Crore Only) to KSIIDC to subscribe 10,00,000 (Ten lakhs Only) Equity Shares of Rs. 10/- each in the years 1995 and 1996 (5,00,000 KSIIDC Shares in each of the year) aggregating to Rs. 1,00,00,000/- (Rupees One Crore Only) in the Equity share Capital of the Company through KSIIDC vide Tripartite agreement dated 15th March 1995.
- e. Because of the various factors including lack of working capital, high interest burden, rejection of stock, low egg prices in Europe and North America in the year 1997 to 2001 the company had suffered heavy losses and based on the audited accounts for the year ended 31st March, 2001, the company made a reference to the Board for Industrial and Financial Reconstruction ('BIFR') and registered before BIFR vide registration No.282/2001 dated 12th July, 2001. Thereafter, OFL was declared as a Sick Industrial undertaking under Sick Industrial Companies Act ('SICA) by the Hon'ble BIFR in the year 2003.

- f. However, after the repeal of Sick Industrial Companies Act the Company had approached to KSIIDC and MFPI directly for One Time Settlement of loan dues payable to KSIIDC and MFPI including purchase of equity shares of OFL held by them.
- g. Thereafter, the Karnataka State Industrial and Infrastructure Development Corporation Limited vide their letter dated 2nd February, 2015 and Ministry of Food Processing Industry vide their letter dated 14th November, 2014 have agreed for One Time Settlement of loan dues and Sale of equity shares of OFL held by them on the terms and conditions stipulated in their respective letters.
- h. The Company had settled the dues of KSIIDC and MFPI and obtained the No Dues Certificates from them and received the physical delivery of the Share Certificates consisting of 5,00,000 (Five Lakhs Only) Equity Shares of Rs. 10/- each on 6th February 2018 and balance 5,00,000 (Five Lakhs Only) Equity Shares of Rs. 10/- each on 20th February 2019 from KSIIDC along with the share transfer deeds duly signed in favor of OFL.
- i. Its own shares unless the consequent of reduction of capital is effected under the Act and therefore the Company proposes to cancel the said 10,00,000 Equity Shares of the Company by reducing the share capital of the company by adjusting the amount shown as advance paid against OTS in the Schedule of Loans & Advances in the Balance Sheet of OFL for the year ended 31st March, 2019, subject to the approval of BSE Ltd, all the statutory authorities and confirmation from Hon'ble National Company Law Tribunal pursuant to section 66 or any other provision of the Companies Act, 2013 and the rules of National Company Law Tribunal (Procedure for reduction of share Capital of Company) Rules, 2016.
- j. The reduction of share capital would cause the Balance Sheet to bring in true and fair representation of the Company by the available assets of the Company and reflect the real financial position of the Company.
- k. 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.
- l. The restructuring will also not cause any prejudice to the creditors of the Company. For the sake of clarity, it is specified that the reduction in Share Capital does not involve any further payment to the creditor and only the book entry is required to be passed in the books of accounts of the Company. Further, the proposed adjustment would not in any way adversely affect the ordinary operations of the Company or the ability of the Company to honor its commitments or to pay its debts in the ordinary course of business.
- m. Accordingly, the Board of Directors of the Company at their meeting held on 14th August, 2019 have considered necessary to carry out restructuring of share capital, so as to show a true and fair view of the Balance sheet by passing the necessary entries in the books of accounts of the Company.


n. Accordingly, the Board of Directors of the Company at their meeting held on 10th December 2019 have taken on record the Valuation Report and Fairness Opinion Report in the matter of Scheme of Reduction of Share Capital.

The Committee also perused the Draft Scheme of Reduction of Capital of the Company.

The Equity Capital of the Company will be reduced from Rs.10,50,08,000/- divided into 1,05,00,800 Equity Shares of Rs. 10/- (Rupees Ten only) each fully paid up to Rs. 9,50,08,000/- divided into 95,00,800 Equity Shares of Rs. 10/- (Rupees Ten only) each and that such reduction be effected by canceling of 10,00,000 Equity Shares of Rs. 10/- each amounting to Rs. 1,00,00,000/- by adjusting advances paid to KSIIDC and MFPI towards OTS accounts.

After discussion and consideration, the Audit Committee recommended the Reduction of Equity Share Capital for favorable consideration by the Board of Directors of the Company.

By order of Audit Committee
For **Ovobel Foods Limited**



Satish Narayana Swamy
Chairman (Audit Committee)

Date : 10th December 2019
Place : Kolkata