



ashima
LIMITED

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CIN : L99999GJ1982PLC005253

/REPORT OF THE AUDIT COMMITTEE OF ASHIMA LIMITED RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT FOR RECONSTRUCTION AND COMPROMISE BETWEEN ASHIMA LIMITED AND ITS EQUITY SHAREHOLDERS, PREFERENCE SHAREHOLDERS AND SECURED CREDITORS

Members

- a) Dr. Bakul H. Dholakia : Chairman of the Audit Committee
- b) Mr. Bihari B. Shah : Member
- c) Mr. Atul Kumar Singh : Member

In Attendance

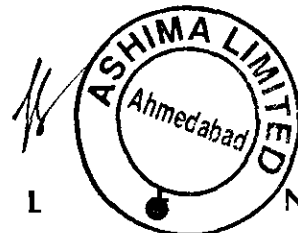
- a) Mr. Chintan Parikh : Chairman & Managing Director, Ashima Ltd. (Permanent Invitee)
- b) Mr. Hiren Mahadevia : Group CFO & Company Secretary, Ashima Limited
- c) Mr. Jayesh Bhayani : Chief Financial Officer

1. Background

In accordance with the provisions of SEBI Circular No. CIR/CFD/DIL/5/2013 dated February 4, 2013 read with SEBI Circular No. CIR/CFD/DIL/8/2013 dated May 21, 2013 (which provides clarifications with respect to the aforementioned Circular) ('Circulars'), the draft Scheme of Arrangement for Reconstruction and Compromise ('Scheme') between Ashima Limited ("the Company" or "Ashima") and its equity shareholders, preference shareholders and secured creditors was placed before the Audit Committee by the Company, to consider and recommend the draft Scheme to the Board of Directors of the Company taking into account, inter alia, the Valuation Report by Rajal Vaidya & Co., Chartered Accountants, Ahmedabad and Fairness Opinion by Saffron Capital Advisors Private Limited.

This report is made in order to comply with the requirements of the Circulars after perusing the following necessary documents:

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T E X C E L L E N C E

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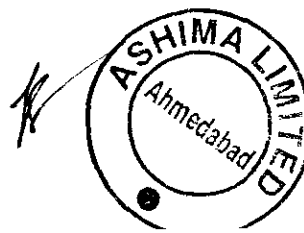


- (a) Draft Scheme of Arrangement;
- (b) Valuation Report dated December 13, 2014 issued by Rajal Vaidya & Co., Chartered Accountants, Ahmedabad for issue of shares pursuant to the Scheme;
- (c) Fairness Opinion dated December 13, 2014 issued by Saffron Capital Advisors Private Limited on the fairness of the valuation report; and
- (d) Statutory Auditors Certificate dated December 13, 2014 issued by Dhirubhai Shah & Doshi, statutory auditors of the Company, in relation to the accounting treatment prescribed in the Scheme.

2. Proposed Scheme

The Audit Committee noted the rationale of the proposed scheme, which is as follows:-

- i. Ashima Limited (hereinafter referred to as "Ashima" or "the Company" or "the Borrower") is the flagship company of Ashima Group. It is engaged in the business of cotton fabric manufacturing. The Company's equity shares are listed on the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited. The Company has applied for delisting of its equity shares from the Ahmedabad Stock Exchange Limited.
- ii. The Company ventured into 100% cotton textiles manufacturing during the year 1992 when it started production at its Kadi factory. Later on, it acquired manufacturing facilities of a textile unit and moved into the Texcellence Complex in Ahmedabad where it started manufacturing of Denim products from the year 1994-95 and Yarn-dyed shirting products from the year 1996-97.
- iii. In the year 1998-99, the company decided to expand its manufacturing facilities. Considering its low debt: equity ratio and overall interest of shareholders, the Company raised significant amount of funds through various debt instruments / borrowings.
- iv. The Company was doing well till the year 1999-2000, however it started facing financial problems from the year 2000-01 when it reported first-ever loss. The Company was confronted with falling prices and increasing manufacturing costs. The changed supply and demand structure in the industry worldwide intensified price competition and as a result there was steep fall in company's realization. During this period, the Company had entered into collaboration with Cone Mills, USA, the largest Denim manufacturing company worldwide at that time, who was to market the products of the company globally. However, Cone Mills later on went into liquidation which severely impacted the marketing capabilities of the Company. There were many other macro-economic factors that went against it during this period and continued to hamper the operations thereafter.
- v. The Company could not come out of these problems thereafter and hence could not make payment of interest and repayment of principal amounts to various lenders from the year 2001-02.
- vi. Since the year 2001 till date, the company made extensive efforts to solve the problems which are briefly mentioned below:
 - a) The company appointed KSA Technopak in the year 2001 for improving Ashima's competitiveness and evaluating options for group restructuring.





- b) In the year 2002, the company appointed KPMG for carrying out Operations Review and suggesting measures for improvement in operational performance.
 - c) In the year 2003, the company appointed KSA Technopak to carry out Market Research and Due Diligence and suggesting modifications and/or amendments to maximize the profitability.
 - d) In the year 2004, the company offered a restructuring proposal to the lenders through Corporate Debt Restructuring (CDR) mechanism. However, in spite of best intentions of the company and most other lenders, CDR did not take up the restructuring proposal of the Company on board on account of some technical reasons. Hence the matter could not move forward.
 - e) At this juncture, many of the secured lenders transferred their debt portfolio in favor of Asset Reconstruction Company (India) Limited ("ARCIL").
 - f) Thereafter, as an alternative solution, the Company decided to move forward by way of a Scheme of Arrangement u/s 391 of the Companies Act, a draft of which was circulated to the lenders and agreed upon. The Company, therefore, prepared a Scheme of Compromise and Arrangement containing similar terms and conditions as were agreed for the CDR mechanism and submitted the same u/s 391 of the Companies Act, 1956 with the Honorable High Court of Gujarat in 2005. However, at that point of time, the working capital lenders who had already agreed for such a scheme under the CDR mechanism decided not to support the scheme put up before the High Court of Gujarat. As a result, the restructuring process could not move forward. Immediately thereafter, many of the working capital lenders transferred their financial assistance in favor of ARCIL.
 - g) Since the matter was not getting resolved in any manner, the Company decided to avail services of some specialized agencies in this field for the said purpose. Accordingly, in the year 2006 the company appointed Kotak Mahindra Bank – Corporate Advisory Group to assist the company in the restructuring process, to advise upon comprehensive scheme and also to search for a financial and/or strategic partner in order to bring about resolution. Kotak Bank worked on the assignment vigorously for more than 2 years, worked closely with ARCIL who is one of the major lenders and also initiated dialogues with many prospective investors. However their efforts also could not bring about any positive developments.
 - h) During these years, the company also approached various strategic and financial investors through various sources. However, the responses from these investors were lackluster on account of overall market situation, outlook of textile industry and the status of the plant and machinery of the company which were ageing.
 - i) The company also put very sincere efforts to get the resolution of the problem on its own by trying to work with the lenders for debt restructuring. It worked very closely with its Secured Creditors since 2006 and submitted a number of alternative debt settlement proposals in order to reach a solution. Initial proposals were in the nature of traditional re-schedulement of loan repayments. However, over a period of time with ageing plant and machinery, it became obvious that a debt restructuring stretched over a longer period of time cannot be sustainable and hence a One-Time-Settlement of the debt was the only feasible option.
- vii. Accordingly, the company started discussing with most of its Secured Creditors for a settlement and recently majority of lenders of the Company have also shown their willingness to settle their Outstanding Secured Debts. However, the Company needs to arrange for substantial funds for the debt settlement to be closed with the Secured Creditors.

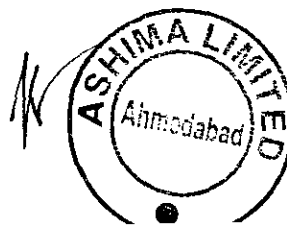




viii. The financial snapshot of the Company for the last 5 years is given below:

	(Rs.in lacs)				
Particulars	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14
Share Capital	5,387	5,387	5,387	5,387	5,387
Reserves and Surplus	21,343	20,792	(28,403)	(29,799)	(31,091)
Profit and Loss account	(47,972)	(48,001)	-	-	-
Loan funds	47,074	47,070	47,057	46,811	46,809
Current Liabilities and Provisions	2,940	2,953	2,552	4,227	4,428
LIABILITIES	28,771	28,200	26,592	26,627	25,532
Fixed Assets	21,345	19,867	18,586	17,369	16,164
Investments	0	-	-	-	-
Inventories	3,541	5,144	4,254	5,752	5,659
Trade Receivables	2,050	1,780	2,340	2,195	2,349
Cash and cash equivalents	774	642	673	499	620
Other assets	838	646	739	812	740
Miscellaneous Expenditure	223	120	-	-	-
ASSETS	28,771	28,200	26,592	26,627	25,532
Net-worth	(21,466)	(21,943)	(23,017)	(24,412)	(25,705)

ix. As can be seen from the above table, the company is in a very delicate financial health on account of huge losses for last many years. The Company had lost its entire net worth in the year 2004 and continues to be a Sick Industrial Company as defined under section 3(1)(o) of The Sick Industrial Companies (Special Provisions) Act, 1985 ("SICA") till date. However, with the advent of the The Securitisation And Reconstruction of Financial Assets And Enforcement of Security Interest Act, 2002 ("SARFAESI Act") and action by certain secured lenders by transferring the financial assistance in favour of an asset reconstruction company, the Company was prohibited from filing reference under section 15 of SICA to Board for Industrial and Financial Reconstruction (BIFR) in view of second proviso to section 15(1) of SICA which says that "...no reference shall be made to the BIFR after the commencement of SARFAESI Act, 2002, where financial assets have been acquired by any securitization company or reconstruction company under sub-section (1) of section 5 of that Act". The Company is saddled with aged and obsolete plant & machinery and a very large workforce of more than 2700 people including those of a closely-interlinked group company Ashima Dyecot Limited. Company does not have any working capital facilities from any bank and hence faces severe limitations in terms of maintaining required level of inventory or extending normal credit facilities demanded by the customers. Still, the company's management is making best efforts on the operational front in all the directions by working in a highly disciplined fashion. It is fulfilling all its obligations towards the workers, employees, vendors and the customers without defaulting on any of its statutory liabilities and also contributes to the exchequer in terms of indirect taxes like service tax, VAT, excise/custom duties and such other levies. A huge number of small and medium enterprises as well as the families of 2700+ workforce get supported by an operational enterprise like Ashima.





- x. The Company is at a crucial juncture currently where it needs huge funds to settle the lenders, for capital expenditure to carry out urgent replacement of old plant and machinery and working capital requirements in order to keep the operations afloat. With the current financial position of the Company where the capital is already eroded long back and the net worth is highly negative, there is very little scope of any institutional, public or private funding. Company's plant and machinery are quite old and obsolete and is not capable of generating resources to service any new debts. The current requirement of funds is for the purpose of debt settlement which will then facilitate fresh bank / institutional funding for capex and working capital requirements. At the same time, if the Company is not able to settle the debt with its secured creditors, its consequences would be far damaging for all the stakeholders of the Company.
- xi. Accordingly, the Company is proposing this scheme of Financial Reconstruction of the Company through re-structuring of preference capital and substantial infusion of equity capital by the shareholders which will also enable a compromise and arrangement with its Secured Creditors (as defined hereinafter) for settlement of their Outstanding Secured Debts and / or variation of the terms and conditions applicable to their dues. The Scheme will enable the business of the Company to be carried on effectively by providing for the settlement of outstanding dues to its creditors in a just, fair and equitable manner, which would otherwise not be possible without the sanction of this Scheme.

The salient features of the draft Scheme are as under:

- a. The Scheme provides for full and final settlement of the entire Outstanding Secured Debt of the Secured Creditors by way of payment towards the Outstanding Principal Secured Debt as per the provisions of the Scheme. As part of the Scheme, the Company will offer three different options as specified in the Scheme to settle the Outstanding Secured Debt of the Secured Creditors. The Secured Creditors can select any one of the said three options, failing which their Outstanding Secured Debt will be settled first as per Option III subject to the limit of Rs. 5 crores and balance Outstanding Secured Debt, if any, as per Option II.
- b. Issue of Redeemable Non-Cumulative preference shares in lieu of existing Redeemable Cumulative preference shares held by the preference shareholders;
- c. issue and allotment of about 8,00,00,000 New Equity Shares of Rs. 10/- each at par (or such marginally higher number of equity shares as may be issued due to ratio of entitlement to existing shares being in round numbers) to the equity shareholders in following manner:
 - I. All Public Shareholders or their respective heirs, executors, administrators or other legal representatives or the successors-in-title, as the case may be, whose names appear in the register of members of the Company as on the Record Date shall be given an option to





subscribe to the New Equity Shares of the Company for cash at par as per the following Share Entitlement Ratio:

New Equity Shares

"24 (Twenty Four) Equity Shares of the face value of INR 10/- each of Ashima, for cash, credited as fully paid-up, shall be issued and allotted for every 10 (Ten) Equity Share of the face value of INR 10/- each held in Ashima ("Share Entitlement Ratio").

- II. Promoters shall be allotted the balance shares (i.e. the proposed issue size of about 8 crores New Equity Shares of Rs. 10/- each, less the New Equity Shares subscribed by the Public Shareholders) by the Company
- d. Raising funds through realization of current assets and a small part of fixed assets, subject to no-objection received from Secured Creditors in case of disposal of any fixed asset which is charged/mortgaged.
- e. The Scheme shall be operative and effective from the Effective Date, as defined in the Scheme.

3. Recommendation of the Audit Committee

The Audit Committee has considered and noted the aforementioned documents along with the draft Scheme and recommends the draft Scheme, for favorable consideration by the Board of Directors of the Company, Stock Exchange(s) and SEBI.

Date: December 15, 2014

Place: Ahmedabad



For, Ashima Limited

K. K. Kharayani

Authorised Signatory