

## SCHEME OF ARRANGEMENT

BETWEEN

KHODAY INDIA LIMITED AND ITS SHAREHOLDERS

This Scheme of Arrangement is presented under Sections 391 to 393 read with Sections 100 to 104 of the Companies Act, 1956 ("The Act") for paying off the equity share capital held by the shareholders other than the promoters/promoter group by reduction of proportionate paid-up equity share capital and cancellation of the corresponding equity shares of the face value of Rs.10/- (Rupees ten only) of Khoday India Limited and issue of cash warrant to the shareholders, entitled thereto, in lieu of such cancelled shares ("Scheme").

### 1, Definitions :

In this Scheme, unless inconsistent with the subject or context, the following expressions shall have the following meanings.

1.1 "Act" means the Companies Act, 1956.

1.2 "Board" means the Board of Directors of the Company.

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- 1.3 "Company" means Khoday India Limited, a Company incorporated under the Act, having its Registered Office presently at "Brewery House", 7<sup>th</sup> Mile, Kanakapura Road, Bangalore-560 062.
- 1.4 "Court" means the Hon'ble High Court of Karnataka at Bangalore.
- 1.5 "Cash Warrant" means any instrument issued under the Scheme for payment in lieu of cancellation of each share, as consideration fixed, pursuant to the Scheme.
- 1.6 "Date of cancellation" means the 7<sup>th</sup> day of the record date or any such succeeding date, if such 7<sup>th</sup> day of the record date is a "public holiday", being the date on which the Board cancels the equity shares held by persons other than those belonging to the promoters and promoter group and issues cash warrant to such shareholders pursuant to this scheme.
- 1.7 "Designated Stock Exchange" means BSE Limited, Mumbai.
- 1.8 "Equity Share" means equity share of Rs.10/- (Rupees Ten only) each in the Company.
- 1.9 "Effective Date" means the date on which the Certified copy(ies) of the order(s) of the Court sanctioning the scheme

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is/are filed with the Registrar of Companies, Karnataka, Bangalore. The Scheme shall be operative from the effective date.

1.10 "Record Date" means the date (subsequent to the "Effective Date") to be fixed by the Board or a committee constituted by a Board or the date up to which the Register of Members of the Company is closed pursuant to Section 154 of the Act and pursuant to sanction of the Scheme by the Court.

1.11 "Shareholder" means a person who is registered as a member in the Register of Members of the Company as on the record date as well as those persons whose names appears as the beneficial owner of the shares in the records of the Depositories on the record date. For the purposes of this Scheme each folio in the Register of Members will be treated as a separate shareholder.

1.12 "Shareholding" means the holding of equity shares by a shareholder under the registered folio in the Register of Members as well as by the beneficial owner whose name appears in the records of the Depositories.

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1.13 "Scheme" means this Scheme in its present form or with any modification(s) approved or imposed or directed by the Court.

2. Preamble of the Scheme:

2.1 The Applicant Company was incorporated on 28<sup>th</sup> day of September 1965 as Private Limited Company under the name and style of "Khoday Distilleries Private Limited", under the Companies Act, 1956, in the State of Karnataka. Subsequently, the Company changed its status to Public Limited Company on 5<sup>th</sup> June 1986 and its equity shares were listed on Bombay, Bangalore and Madras Stock Exchanges with effect from 29<sup>th</sup> September 1986. The name of the Company was changed to "KHODAY INDIA LIMITED", pursuant to the fresh certificate of incorporation dated 14<sup>th</sup> February 1992 issued by the Registrar of Companies, consequent on change of name.

2.2 The Registered Office of the Applicant Company is situated at "Brewery House", 7<sup>th</sup> Mile, Kanakapura Road, Bangalore-560 062.

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2.3 The Authorized share capital of the Company is Rs.45,00,00,000/- (Rupees Forty five crores only)divided into 4,50,00,000/- (Four crore fifty lakhs) Equity Shares of Rs.10/- (Rupees Ten only) each. The issued, subscribed and paid-up equity share capital of the Company is 37,59,12,370/- (Rupees Thirty seven crores fifty nine lakhs twelve thousand three hundred and seventy only)divided into 3,75,91,237 (Three crores seventy five lakhs ninety one thousand two hundred and thirty seven)equity shares of Rs.10/-(Rupees Ten only) each fully paid up.

2.4 Up to the financial year 2003-04 the paid up capital of the Applicant Company was Rs.14,51,43,140/- (Rupees Fourteen crores fifty one lakhs forty three thousand one hundred and forty only) divided into 1,45,14,314 (One crore forty five lakhs fourteen thousand three hundred and fourteen) equity shares of Rs.10/- (Rupees Ten only) each fully paid up, and listed on the Stock Exchanges. Pursuant to a Scheme of amalgamation of Khodayss Systems Limited with the Applicant Company during the financial year 2003-04, 2,30,76,923 (Two crores thirty lakhs seventy six thousand

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nine hundred and twenty three) equity shares were allotted to the Promoters and Promoter group of the Applicant Company, which are unlisted at present.

2.5 The main objects of the Applicant Company are set out in Clause III A of the Memorandum of Association of the Applicant Company.

2.6 The Applicant Company commenced its business inter-alia, in dealing in manufacture and sale of Indian made liquors of various types and generally to carry on the business of manufacturers, dealers, importers and exporters of liquors, and has been carrying on the same since obtaining Certificate of Incorporation. A certified copy of the Memorandum and Articles of Association also containing the Certificates of incorporation issued by the Registrar of Companies, Karnataka, Bangalore, consequent on the changes in the Company's name, is at Annexure – "A".

2.7 As per the un-audited financial results for nine months ended 31<sup>st</sup> December 2012 during the financial year 2012-13, the Applicant Company has incurred a loss of Rs.16,76,51,000/- (Rupees Sixteen crores seventy six lakhs and fifty one

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thousand only). A certified copy of the un-audited financial results for the nine months period ended 31<sup>st</sup> December 2012 is enclosed as annexure "B".

2.8 The Shareholding pattern comprised in the issued, subscribed and paid-up capital of the Applicant Company as at 31<sup>st</sup> March 2013 is as follows:

Category	No. of shares held	% of issued, subscribed and paid-up capital
Promoters and Promoter Group	3,36,60,195	89.54
Other than Promoter and Promoter Group (Public)	39,31,042	10.46

Distribution of shares of the Applicant Company listed on the Stock Exchanges as at 31<sup>st</sup> March 2013 is as follows:

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Range of Shares		Physical	Demat	Total
1	500	917450	890969	1808419
501	1000	33800	297289	331089
1001	5000	12673	748995	761668
5001	10000	-	354070	354070
10001 & ABOVE		89950	585846	675796
<b>Total</b>		<b>1053873</b>	<b>2877169</b>	<b>3931042</b>

Demat means the shares dematerialized with National Securities Depository Limited (NSDL) and also with Central Depository Services India Ltd (CDSL) and physical means shares that have not been dematerialized.

A certified copy of the Statement containing the shareholding pattern of the Applicant Company, as at 31<sup>st</sup> March 2013 and submitted to the Stock Exchanges in compliance with Clause 35 of the Listing Agreement is at Annexure – “C”.

Though the shares allotted by the Applicant Company in its initial public offer during 1986 were in the physical mode, subsequently, on Securities and Exchange Board of India (SEBI) making it

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mandatory for the Company's shares to be traded in the Stock Exchanges only in the Dematerialized mode, more than 73 % of the listed shares held by the public are in dematerialized mode at present. Even then, the Company's shares were not at all traded on Bangalore and Madras Stock Exchanges during the previous 4 financial years as confirmed in the letters of the respective Stock Exchanges, at Annexures "D-1" and "D-2".

Even on BSE Limited, the trading volumes are extremely low as borne out from the following data \* :-

Calendar year	Volume of equity shares traded	Monthly average volume	Average monthly trading volume as percentage of Listed shares	Average monthly trading volume as % of shares held by public
2009	20,48,401	1,70,700	1.17	4.34
2010	37,20,669	3,10,055	2.13	7.88
2011	8,22,310	68,526	0.47	1.74
2012	22,70,045	1,89,170	1.30	4.81
2013 (upto 18 <sup>th</sup> April 2013)	4,87,949	1,08,433	0.74	2.76

\* Source : website of BSE. Ltd.

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Apparently, the average monthly volume of trading of the Applicant Company's shares on BSE during the previous 4 calendar years as well as during the first three months of 2013, has been less than 3% of the listed shares and less than 8 % of the shares held by public. Further from 2011 a marked declining trend in the trading volumes is noticed. The data as printed from the web site of BSE Ltd is at Annexure – "E".

3. From the public shareholders' perspective, there has been no dividend earning on the Applicant Company's shares during the immediately preceding five consecutive financial years (2007-08 to 2011-12) and the trading volumes of the Applicant Company's shares on Bombay Stock Exchange are extremely low (there being complete absence of trading on Bangalore and Madras Stock Exchanges), thereby rendering the holding of Applicant Company's shares an unattractive proposition. The following table gives data on the Earnings Per Share as disclosed in the audited balance sheet and profit and loss account of the Applicant Company for the immediately preceding five financial years:

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Financial Year	Earning Per Share (Rs.)
2007-08	2.22
2008-09	(0.93)
2009-10	(1.48)
2010-11	(3.55)
2011-12	4.22
2012-13	(4.46)
(for nine months ended 31 <sup>st</sup> December 2012)	

With a view to mitigate the hardship faced by its public shareholders in the above scenario and make investible funds available to them, the Applicant Company has formulated the following Scheme under Sections 391 to 393 read with Sections 100 to 104 of the Act.

#### 4. Objective of the Scheme:

4.1 The objective of the Scheme is to provide an exit route to the shareholders of Applicant Company other than those belonging to the promoters/promoter group.

4.2 The Scheme is conceived with the object to result in the public shareholders getting back their investment in capital together with a premium that is higher than the intrinsic value of the shares of the Applicant Company and also the average of the weekly high and low

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quoted price of the Applicant Company's share on Bombay Stock Exchange during the immediately preceding 26 weeks.

4.3 The Share Valuation Report dated 28<sup>th</sup> March 2013 of the Independent Valuer M/s N.C.Rajagopal & Co., Chartered Accountants, Chennai and a Certificate issued in that regard are at Annexures – 'F - 1 and F - 2', as per which the value per equity share of the Company as on 31<sup>st</sup> December 2012 is Rs.31.39 (Rupees Thirty one and paise thirty nine only).

4.4 The average of the weekly high and low quoted price of the Applicant Company's share on Bombay Stock Exchange during the period of 26 weeks from 22<sup>nd</sup> October 2012 to 19<sup>th</sup> April 2013 was Rs.53.27 (Rupees Fifty three and paise twenty seven only). The market price data of the Applicant Company's share, for the said period as taken from the website of BSE Limited and a calculation chart are at Annexure 'G'.

4.5 The Scheme envisages paying off the shareholders other than the promoters/promoter group of the Applicant Company, the paid-up capital amount of Rs.10/- (Rupees ten only) for every 1 (One) equity share together with a premium of Rs.65/- (Rupees Sixty five

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only) thereof, aggregating to Rs.75/- (Rupees Seventy five only) for every 1 (One) equity share, pursuant to a reduction of the proportionate paid-up equity share capital of Rs.3,93,10,420/- (Three crores ninety three lakhs ten thousand four hundred and twenty only) under Section 100 of the Act, and automatic cancellation of the corresponding equity shares of the face value of Rs.10/- (Rupees Ten only) on the Scheme being sanctioned by the Court and without requiring any action from such shareholders,

4.6 The premium of Rs.65/- (Rupees Sixty five only) to be paid together with the return of capital of Rs.10/- (Rupees Ten only) for every 1 (One) equity share cancelled pursuant to the Scheme, will be paid by the Company out of its accumulated, distributable reserves.

4.7 Thus the aggregate price of Rs.75/- (Rupees Seventy five only) to be paid for every one equity share cancelled pursuant to the Scheme, will be 2.39 times the value as per the Share Valuation Report dated 28<sup>th</sup> March 2013 and 1.40 times the 26 weeks' average of the high and low prices of the share as quoted on BSE during the period from 22<sup>nd</sup> October 2013 to 19<sup>th</sup> April 2013.

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