

Proxy Advisory Report

GHCL Ltd. (Addendum)

COMPANY INFORMATION	MEETING DETAILS	E-VOTING DETAILS
BSE CODE: 500171 NSE SYMBOL: GHCL ISIN: INE539A01019 Industry: Chemicals Email: secretarial@ghcl.co.in Phone: +91 79 2643 4100 Registered Office: GHCL House, Opp. Punjabi Hall, Navrangpura, Ahmedabad - 380 009, Gujarat	Meeting Type: PB Voting Deadline: 21 st January, 2022 Notice Date: 6 th December, 2021 Notice: Click here Annual Report: FY 2020-21 SES PA Report (Last AGM): Report Addendum SES PA Report (PB): Report	e-Voting Platform: CDSL Cutoff Date: 17 th December, 2021 Remote E-voting Start: 23 rd December, 2021 Ends: 21 st January, 2022

RESEARCH ANALYST: RAJORSHI PALIT

This Addendum is being issued based on the e-mail dated 11th January 2021 sent by GHCL Ltd ('the Company') w.r.t. Proxy Advisory Report ('PA Report') issued by SES in relation to the ensuing Postal Ballot of the Company.

There is no change in any SES recommendation.

BACKGROUND

SES, as per its policy, had e-mailed its PA Report to the Company on 10th January 2022 in respect of upcoming Postal Ballot of the Company with e-voting deadline 21st January 2022.

Post release of PA Report, SES received an email from the Company providing its view point, which is reproduced at the last in **blue text** along with the SES Response (**in black**). Further, SES had telephone conversations with the Company (post Company's response to PA Report) on 12th January 2021 with respect to Valuation Report in relation to the ensuing Postal Ballot.

It may be noted that the email of the Company (as per SES policy framed to comply with SEBI Circular dated 3rd August, 2020 [SEBI/HO/IMD/DF1/CIR/P/2020/147](#)) has already been forwarded to SES clients 'as it is', without any inputs from SES on 12th January 2022. This Addendum provides appropriate responses of SES, wherever required.



ADDENDUM

SES COMMENTS OF COMPANY'S RESPONSE

A. Non-availability of Valuation report in connection with slump sale of Home Textiles Business ('HT Business') of GHCL Limited:

As duly mentioned in your Report, there is no statutory requirement to obtain and/or circulate the valuation report with the shareholders in the present facts of the case. In this regard, we wish to apprise you that the Board of Directors of GHCL Limited have, amongst others, duly considered the valuation report issued by a registered valuer (Mr. Niranjan Kumar) determining the fair value of the HT Business of GHCL while approving the proposed transfer of HT Business by the Company to Indo Count Industries Limited ("ICIL"). Please note that, amongst other documents, the valuation report is available for inspection (as per timelines mentioned in the postal ballot notice) to the Shareholders.

SES Response: SES agrees with the Company that the Company is not required by law to share the Valuation Report. Therefore, SES in its report has raised only a Governance concern and not a compliance concern.

SES would like to point out that the Company in the proposed Resolution for Slump Sale or in the Explanatory Statement has not mentioned anywhere that the Board had obtained a Valuation Report from a registered valuer for arriving at the valuation of HT Business. It may be noted that during the telephonic conversation of the Company with SES, the Company stated that the Valuation Report can be obtained from the Company by the shareholders via an email to designated email ID. The Company mentioned that they have mentioned the same in the Notice as well on Page 5 of the Notice, reproduced hereunder:

"All the material documents referred to in the explanatory statement will be available for inspection at the registered office of the Company during 02:00 p.m. to 04:00 p.m. on all working days from date of dispatch until the last date of receipt of votes by Postal Ballot through Remote e-voting i.e. Friday, January 21, 2022. Shareholders willing to inspect such documents can send an e-mail to secretarial@ghcl.co.in."

In this regard, SES is of the view that the aforementioned excerpt neither explicitly mentions that the shareholders can obtain the Valuation Report nor defines material documents. In fact, the Company has not even mentioned that Valuation Report was obtained by the Board. If shareholders are not even aware of existence of a valuation report than how would they reach out to the Company to provide the same.

It may also be noted that on receipt of the Company's response, SES, being a shareholder, had contacted the Company for a copy of the Valuation Report. In response, the Company offered to share the details of the Valuation Report via video conference call instead of sharing the copy of the report. SES being an ethical proxy advisory firm, declined the offer on the ground that a video conference call in which the Company would depict the Valuation Report to SES via screen share would be a closed door event. This would lead to information asymmetry, resultantly affecting shareholders' interest. SES is of the firm opinion that the Company as a good governance practice should share all the material information in the public domain while seeking approval of the shareholders.

The Company further wishes to submit that while evaluating the approval of divestment of HT Business of GHCL to Indo Count Industries Limited ("ICIL"), the Board of Directors of GHCL have considered various factors, which amongst others include, strategic vision of the Company, financial health of HT Business and its future business outlook, present divestment opportunity, valuation report drawn up in accordance with internationally accepted valuation methodologies.

SES Response: SES takes note of the fact that the management of the Company has considered a number of factors for the purpose of divestment. However, on account of non-disclosure of Valuation Report, SES cannot objectively analyse the transaction. Therefore, SES is constrained from revising its recommendation.

Separately, the Company wishes to bring to your attention a factual inadvertent error which requires correction with regards to the EBITDA number of ICIL (on consolidated basis) for H1'FY22. The same has been considered as INR 139 Crs when it should be INR 316.97 Crs.

We hope the above information clarifies any doubts you may have had regarding the aforementioned proposal.



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SES Response: SES had inadvertently considered the Consolidated EBITDA for the quarter ending Sep'21 of ICIL instead of Half year ending Sep 2021 for the calculation of annualised EBITDA for ICIL. However, SES has now rectified the error. Accordingly, the rectified ratios highlighted in yellow is depicted below.

Updated Ratios

EBITDA (₹ in Cr.)							
Entity	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22 (H1)	FY 2021-22 (Annualised)	Last 3 yr avg	4 yr avg
Spinning	112	91	113	116	232	145.33	137
HT	0	-14	42	60	120	49.33	37
ICIL	166.23	237.85	414.5	316.97	633.94	428.76	363.13

Spinning and HT Business EBITDA figures from the [Transcript of conference call](#) (Page 8 out of 19)

ICIL EBITDA figures from [Unaudited Standalone Financial Results for the Quarter and Half Year ended 30TH September, 2021](#)

ICIL	
Market Cap (2 nd Dec 21) (₹ Cr.)	4,534.27
Consolidated Debt (Sep'21) (₹ Cr.)	745.09
Consolidated EBITDA (Annualised) (Sep'21) (₹ Cr.)	633.94
EV (₹ Cr.)	5,279.36
EV/EBITDA 2021-22	8.33
EV/Avg EBITDA 4 YEARS	14.54

HT	
EV (₹ Cr.)	596
EBITDA(Annualised) (₹ Cr.)	120
EV/EBITDA 2021-22	4.97
EV/Avg EBITDA 4 YEARS	16.11

ICIL	
Net Worth (FY 2021) (₹ Cr.)	1,290.09
EV/ Net Worth	4.09

HT	
Net Worth (FY 2021) (₹ Cr.)	384.44
EV/Net Worth	1.55

It may be noted that as already mentioned in the PA Report, there is marginal difference in 4 year average figures of ICIL and HT. However, the ICL ratio for FY 2021-22 remains on the higher end when compared with HT ratio for the year. Shareholders may take a note of the above calculations and take an informed decision.

B. Difference of INR 20 Crs in press release issued by GHCL and ICIL:

As provided in the press release (dated 6-Dec-21) of our Company, GHCL expects to realise a consolidated sum of INR 596 Crs as part of its exit from HT Business, break-up of which is as follows:

- INR 539 Crs to be received from ICIL in respect of Business Transfer Agreement (BTA);
- INR 37 Crs to be received from ICIL's US subsidiary in respect of Asset Transfer Agreement (ATA) with Grace Home Fashions (GHF), subsidiary of GHCL;
- INR 20 Crs to be realised by GHCL and/or GHC, on its own account **.

From the above, it may be noted that the Company (including through GHF) shall realise a total sum of INR 576 Crs (i.e. INR 539 Crs under BTA and INR 37 Crs under ATA) from IndoCount, subject to customary closing date adjustments. The said fact can also be corroborated with ICIL's press release issued on dated 6-Dec-2021. Thus, there is no discrepancy between the press releases of ICIL and GHCL.

** As part of GHCL exiting its HT Business in entirety, GHCL/ GHF expect to realise an additional sum of INR 20 Crs on account of remaining surplus assets (which are not being transferred to ICIL as part of BTA and ATA) in its ordinary course of business, break-up of which is as follows:

- Debtors of GHF towards sale to third parties – INR 16 Crs;
- Cash and Bank Balance of GHCL (pertaining to HT Business) – INR 4 Crs;



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SES Response: SES had stated in the PA Report that “It is observed that there is no mention of additional ₹ 20 crores recoverable by GHCL in Indo Count disclosures. Shareholders may take note of the discrepancy and seek clarification from the Company in this regard.”. In response to the same, the Company has issued the above clarification. The Company has provided that additional ₹ 20 crores would be on account of remaining surplus assets as depicted above.

No concern has been identified in this regards as Company has sufficient clarified regarding the discrepancy.

Shareholders may take note of the same.

COMPANY'S EMAIL DATED 11TH JANUARY 2022

Dear Sir / Madam

This refers to your below containing Proxy Advisory Report dated January 11, 2022 released by SES.

Please find our formal reply / response from GHCL Limited and [consider for issue a revised SES report / addendum to your previous report.](#)

You may talk to XXX or undersigned at XXX, for any further clarification.

Shareholders may access the GHCL Response by clicking [here](#).

Thanks & Regards
XXX

SES RESPONSE DATED 12TH JANUARY 2021

Dear Sir,

As per your response to our PA Report, the valuation report can be inspected by the shareholders. Please note that SES holds 1 share in GHCL. Accordingly, we request you to provide us with the valuation report in relation to the upcoming Postal Ballot.

SES FURTHER COMMUNICATION DATED 12TH JANUARY 2021

Dear XXX

This has reference to your mail dated 11th January, 2022 received by SES at 9:35 pm and subsequent discussions you had with undersigned and our MD Mr. XXX. Mr. XXX had explained to you issues very clearly and advised that in order to maintain audit trail we will need a copy of valuation report and your showing the same on video call will not serve any purpose, as we will not be able to share the same with our clients. Mr. XXX also explained to you that SES is a highly ethical and principle based company and will follow SEBI guidelines religiously. I also asked you to share the report of valuation as SES is a shareholder and Mr. XXX is also a shareholder. You had promised to Mr. XXX that you will revert after you discuss the issue with your legal advisor.

We have not heard from you till now. You will appreciate that SES as per its internal policy (which is framed after SEBI guidelines) releases addendum w.r.t. Company's responses within 2 days of the mail unless there are any exigent circumstances. Therefore, in line with our policies, we intend to issue the Addendum latest by 5 pm today. In absence of the disclosure of Valuation Report/Methodology, SES would not be able to add anything in analysis except refer to your mail and our telephonic conversation. You will understand we are SEBI registered entity and have to comply with guidelines without fail.

Regards,
XXX



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Sources**

Only publicly available data has been used while making the report. Our data sources include Notice of Shareholders' Meeting, BSE, NSE, SEBI, Capitaline, MCA, Moneycontrol, Businessweek, Reuters, Annual Reports, IPO Documents and Company Website.

Analyst Certification

The Analyst(s) involved in development of this Report certify that no part of the Research Analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the Research Analyst(s) in this Report. The concerned Research Analyst(s) and Director(s) do not have any pecuniary relationship with the Reported Company, except that they may be holding miniscule shares in the Company which does not impact their independence in respect of this Report.

SES may be a shareholder in the Company holding equity shares as disclosed on its [website](#). The objective of SES' investment is solely to obtain Shareholders' communications from the Company as a shareholder.

CAUTIONARY STATEMENT

The recommendations made by SES are based on publicly available information and conform to SES's stated Proxy-Advisory Guidelines. SES opinion is based on SES's interpretation of law and governance benchmarks, which may differ from opinion/ benchmarks of other analysts or practitioners. Further, SES analysis is recommendatory in nature and reflects how SES would have voted if it was a shareholder. Therefore, SES expects that the clients will evaluate the effect of their vote on their investments independently and diligently and will vote accordingly. Subscribers may also carry out an impact analysis of their votes and keep the same as an addendum for their records. In our opinion, Institutional investors are positioned significantly differently from other shareholders due to their ability to engage the board and the management to bring out desired result. As a firm, it is our endeavour to improve the level of corporate governance while not causing any disruption in company's proceedings and therefore we respect the independence of investors to choose alternate methods to achieve similar results.

Disclaimer

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All disputes shall be subject to jurisdiction of High Court of Bombay, Mumbai.

Concern terminology

NC – Compliance Concern: The Company has not met statutory compliance requirements

FC – Fairness Concern: The Company has proposed steps which may lead to undue advantage to a particular class of shareholders and can have adverse impact on non-controlling shareholders including minority shareholders

GC – Governance Concern: SES questions the governance practices of the Company. The Company may have complied with the statutory requirements in letter. However, SES finds governance issues as per its standards.

TC - Disclosures & Transparency Concern: The Company has not made adequate disclosures necessary for shareholders to make an informed decision. The Company has intentionally or unintentionally kept the shareholders in dark.

Company Information

Stakeholders Empowerment Services

SEBI Reg. No. INH000000016

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