

July 25, 2018

To,
The National Stock Exchange Ltd.
Exchange Plaza,
Plot no. C/1, G Block,
Bandra-Kurla Complex
Bandra (E)
Mumbai - 400 051
Maharashtra

Dear Sir,

www.moneylife.in

We note your recent reference to us through an email as per Regulation 30 of the Listing Regulations to respond to a web report published in www.moneylife.in on July 13, 2018 ("the July 13 Report").

Our response is as follows:

1. The July 13 Report is based purely on allegations made by a shareholder on the floor at the Annual General Meeting ("AGM") of the Company held on July 13, 2018 and/or the alleged documents shared by him with www.moneylife.in, copies of which were not made available to the Company. However, certain select pages were handed over to the Company's Independent Directors at the AGM.
2. Our response herein is therefore based entirely on what has been reported in the July 13 Report.
3. The Company has been in existence since 1919. Its philosophy of governance is founded upon a rich legacy of principles and practices that predicates dealings with stakeholders based on transparency and ethical behavior. Since its incorporation, there has been no instance where any allegations of the nature leveled against the Company in the present case have been made by any shareholder.
4. The allegations that the Company and its directors and promoters had undertaken transactions with Camden Industries Limited ("Camden") to "short-change" public shareholders of the Company are totally frivolous, defamatory, scurrilous and misinterprets the *real* facts, which are also in the public domain as stated below.
5. Since last several years, the profitability of the Company has come under severe strain. The Company had set up a new tyre manufacturing unit in the State of

Uttarakhand in about 2008, for which substantial funds had been borrowed from banks. However, returns were slow in coming owing largely to an adverse business environment. Losses suffered by the company (before exceptional items) during the financial years 2012-13 to 2017-18 aggregated to about Rs.3200 crore due to which debt burden was taking a toll not only on operational results but also affecting the liquidity, debt equity ratio and the net worth of the Company. To save the Company from becoming sick or potentially sick or debts becoming NPAs and to meet the emergent situation, *inter alia*, the following steps had to be and were initiated by the Management for infusion of funds and monetisation of the assets of the Company:

(i) **Capital Infusions from time to time:**

- (a) **2013 Rights Issue:** The Company undertook a rights issue in June 2013 pursuant to which it raised over Rs.416 crore. The issue was not fully subscribed by the public shareholders. The Promoters, besides their own contribution, took up the entire unsubscribed portion of the rights issue and invested in excess of Rs.260 crore into the Company's share capital. This action by itself is testimony to the Promoter Group's commitment to the Company; the real purpose of such rights issue was primarily to retire term loans of banks to the extent of about Rs.312 crore.

(b) **Preferential allotments:**

Subsequent to the rights issue, over Rs.400 crore were brought into the Company by the Promoter Group through preferential allotments in 2016 and 2018.

On March 31, 2016, Manav Investments & Trading Company Limited ("Manav"), a member of the Promoter Group, brought in Rs.90 crore as share capital. The rate per share at which the preferential allotment was made was above the market price and that computed as per the SEBI Regulations.

Yet again, on or about March 28, 2018, Manav brought in approximately Rs.312 crore through preferential allotment at the rate of Rs.175 per share. In this case as well, the price paid per share was above the market price and that computed as per SEBI Regulations. It would be pertinent to note that at about the same time, the shareholder referred in the July 13 Report purchased the Company's shares when the prevailing market price was around Rs.120 per share.

Thus, in the last five years alone, the Promoter Group has infused over Rs.665 crore into the Company to save the Company. This *ex facie* belies the false allegations of "short changing of public shareholders".

(ii) **The Net Worth Issue:**

Despite the rights issue in 2013 and in view of difficult operating conditions, the Company was faced with the prospect of becoming a “potentially sick company” as on March 31, 2016. This would have required a reference to the Board of Industrial and Financial Reconstruction (“BIFR”).

To prevent the Company from being declared as a “potentially sick company” the Company was compelled to monetize assets, reduce its debt and increase its equity. Consequently, the Company undertook the following transactions:

- (a) **Sale of Laksar Tyre Undertaking:** With effect from March 31, 2015, the Company transferred the tyre manufacturing facility at Laksar, Uttarakhand to Cavendish Industries Limited (“Cavendish”), a subsidiary, as a going concern on a slump sale basis. The Company entered into an agreement with the JK Tyre Group in October 2015 to sell the entire share capital of Cavendish for consideration in excess of Rs.2,000 crore. Such sale was completed in April 2016. The proceeds of the sale of Cavendish were used entirely to repay the lenders of the Company, including public sector banks such as State Bank of India, Bank of Baroda and Punjab National Bank.
- (b) **Sale of Hindustan Heavy Chemicals (“HHC”) and Spun Pipes Undertakings:** The HHC and Spun Pipes Undertakings were shut down several years ago. The Company had been attempting to sell such Undertakings since 2011, but were unable to find buyers on account of (i) such undertakings being under suspension of work; and (ii) difficulties in obtaining regulatory approvals in West Bengal for change of land use from industrial use to non-industrial use. We could not raise further loans by providing the lands pertaining to such Undertakings as security as further debts would have only adversely affected the net worth of the Company.

Left with no choice, the Company was compelled to sell the HHC and Spun Pipes Undertakings to Camden. We reiterate that Camden is not a “related party” of the Company in terms of provisions of the Companies Act, 2013 and the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015.

The HHC and Spun Pipes Undertakings were sold to Camden, as a going concern on a slump sale basis, with effect from March 31, 2016, for an aggregate consideration of Rs.400 crore. Manav, a promoter of the



Company, agreed to provide security to the loan obtained by Camden from a bank. Camden was supported by Manav by providing the security, in the absence of which Camden would have found it difficult to obtain financing to acquire the HHC and Spun Pipes Undertakings.

- (c) **Disposal of listed investment portfolio:** The listed company investment portfolio of the Company consisted of holdings in various group companies, including certain substantial blocks. The investment portfolio included shares of Century Textiles & Industries Limited (Century Textiles), of which the Company was a promoter. The Company could not raise further debt against such securities for the reasons set out above. The portfolio of listed company investments was sold on March 22, 2016 to Camden for approximately Rs.430 crores at prevailing market prices, in accordance with applicable law and regulations, including the relevant SEBI Regulations.

To fund such acquisition, Camden issued unlisted, collateralised, redeemable non-convertible debentures ("NCD") on a preferential basis to certain qualified institutional investors who accepted the offer pursuant upon a due diligence exercise. To secure the NCD issuance, Camden pledged these investments. Kesoram Textiles Mills Limited ("KTML") came forward to assist so that the transaction could be successfully closed.

- (d) **Preferential allotment:** The preferential allotment to Manav on March 31, 2016, referred to above, was also critical in ensuring that the Company stayed clear of a reference to BIFR.

It does not need emphasis that without disposal of these two Undertakings and the listed company investment portfolio of the Company at that material point in time, it would have been impossible for the Company to avoid a BIFR reference. The impact of such reference on the Company would have indeed been severe. Had the Company been referred to BIFR, albeit as a potentially sick company, normal operations of the Company would have been impacted and the interests of all stakeholders, including minority shareholders, suppliers and lenders, would have been jeopardized.

It would be relevant to note that as at end February 2016, the Company's debt burden amounted to Rs.5,300 crore. This was reduced to Rs.2,600 crore as at end April 2016 (approximately Rs. 2,700 crores was repaid to lenders pursuant to the funds realized from the transactions set out above). The details of the above transactions are in the public domain. That the Company continues to thrive in its centenary year is credit to the timely proactive actions taken by the Company's management and Promoter Group over the years.



The Company's management and Promoter Group, despite growing adversity in operations, have thus not deviated from their commitment to the Company. This is also reflected in the Promoter Group's consistent action of injecting their own substantial funds into the Company whenever so required to save the Company. Rather than appreciating the role of the Promoter Group in assisting the Company in times of need and thus safeguarding the interests of the Company and its stakeholders, unfounded allegations have been made.

6. The July 13 Report conveniently "cherry-picks" and distorts isolated facts to come up with allegations that the promoters of the Company had made a profit at the expense of its public shareholders, when in reality the Promoter Group has continuously infused funds into the Company and otherwise sought to provide all necessary support.
7. Camden acquired the HHC and Spun Pipes Undertakings in March 2016 with intent to commence manufacture at these locations. Unfortunately, it came under the influence of intense lobbying by local political groups demanding employment even before an industrial blue print began taking shape. In this background, Camden approached the Company to consider repurchasing the HHC and Spun Pipes Undertakings. The Company repurchased the said undertakings at an arm's length price, after due deliberations on such request as such repurchase complemented its plan to augment its manufacturing base in the state.
8. Around December 2017, the Company's debt had declined, the financial position of the Company had stabilised and the Company was considering a new beginning in the tyre business through the induction of a partner from which it could source both the latest technology as well as funds, if so required.

As investment in Century Textiles had always been considered strategic and disposing of that investment in March 2016 had been on account of circumstances beyond the Company's control, Cygnet Industries Limited ("Cygnet"), a wholly-owned subsidiary of the Company decided to reacquire a portion of the listed company investment portfolio, including the shares of Century Textiles. Such acquisition by Cygnet was also done using the Stock Exchange platform at prevailing market prices with all necessary disclosures in accordance with applicable laws and regulations, including the relevant SEBI Regulations.

9. However in June 2018, in the face of the Company again facing a liquidity crisis owing largely to the Cement Business not performing as per expectations, the liquidation of a substantial portion of listed investments, including the shares of Century Textiles by Cygnet became inevitable.



10. Cygnet executed all transactions at prevailing market prices on the Stock Exchange platform, including the disposal of its Century Textiles investment to Pilani Investment and Industries Corporation Limited (main promoter company of Century Textiles). Necessary disclosures were made in accordance with applicable laws and regulations, including the relevant SEBI Regulations. It is important to note that the sale transaction in respect of Century Textiles share took place in June 2018 and therefore it was beyond the ambit of the financial statement of accounts under consideration of the shareholders at the said AGM.
11. The allegation that Camden made huge illegal profits at the expense of the Company's public shareholders is completely false, frivolous and vexatious. The July 13 Report has conveniently ignored all ground realities and went ahead in creating a concocted story based on distorted and disjointed facts and publishing such story.
12. In the above factual background, none of the allegations in the July 13 Report have any merit.
13. Far from "round tripping" and "short changing" minority shareholders, had the Promoter Group not stood by the Company with their support during times when their help and assistance was required, the Company would have found it difficult to survive.
14. It is reiterated that Camden is not a "related party" in terms of provisions of the Companies Act, 2013 and the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015.
15. All transactions undertaken by the Company with Camden have been in compliance with applicable law and regulations and undertaken on an arm's length basis either (a) on Stock Exchanges at prevailing market prices in case of shares of listed companies or (b) at fair value supported by independent valuations by recognized valuers in case of other assets.
16. Any allegation of insider trading against the Company in relation to transactions involving shares of Century Textiles or other listed stocks is frivolous and without any factual or legal basis. The Company (and its wholly-owned subsidiary Cygnet) never had access to any "unpublished price sensitive information" relating to Century Textiles or other listed stocks as referenced in the July 13 Report nor were such transactions based or could be based on any such information. All share related transactions were done in the usual course of business through the platform of the Stock Exchanges at prevailing market prices and were not influenced by extraneous factors.
17. Transactions involving shares of Century Textiles as referenced in the July 13 Report were undertaken based on business exigencies at the relevant time at the prevailing



market prices on the Stock Exchange platform and in compliance with all applicable laws and regulations. Any attempts to draw linkages between unconnected transactions that have a time span of almost two years between them and thereafter attribute motives on the basis of such imagined linkages is uncalled for.

18. The Company has always endeavored to protect the interests of its stakeholders, including public shareholders. The Promoter Group has risen to the occasion time and again in the Company's long journey. It remains fully committed to this endeavor.
19. There are several fundamental aspects of the conduct of the concerned shareholder (based on which the July 13 Report has been published) that need to be appreciated as that would have a substantial bearing on the aforesaid response.

These are set out below:

- (i) The said shareholder bought shares of the Company only in March 2018, prior to which he was not a shareholder.
 - (ii) The AGM of the Company was held on July 13, 2018, for which the requisite notice dated May 11, 2018 was issued by the Company to all shareholders.
 - (iii) A prepared text of allegations made by the said shareholder read out on the floor at the AGM was immediately released by him to the media after the AGM without furnishing any copy thereof to the Company. It has subsequently become known to us that the proceedings at the AGM were recorded on video by unknown persons (who presumably attended the AGM at the said shareholder's behest and in collusion with him) and such video recording was immediately uploaded on the Internet after the AGM. This video recording was made surreptitiously and without the Chairperson's consent.
20. The Company reserves its rights to take such further action, as it considers appropriate in this matter to protect the Company's and its stakeholders' interests.
 21. The Company expects that the aforesaid response explains all aspects of the matter.

Yours sincerely,

For **Kesoram Industries Limited**

Gautam Ganguli
Company Secretary