

Frequently Asked Questions (FAQ)

Date: 21 July 2016

Adi Finechem Limited ("Adi")

1. *What is the business of Adi?*

Adi is a Renewable Speciality Chemical Company, manufacturing oleo chemicals and nutraceuticals from waste products generated from refining of edible oils.

2. *What are Adi's key raw materials? What steps is Adi taking to ensure sustainable supply of raw materials over a long term?*

Adi's raw materials are Acid Oil and Deodorizer Distillate. It has a one of a kind facility which uses these waste by products of edible oil refining industry as its raw materials.

India is one of the largest consumers of Soya & Sunflower in the world, hence giving good access to raw materials required by Adi. Adi has 10+ years' relationship with most of its suppliers. The top 10 raw material suppliers contribute over 75% of the total raw material consumption.

3. *What are Adi's key products? Who are Adi's key customers?*

Adi manufactures high grade of Fatty Acids viz. Linoleic acid, Dimer and Monomer Fatty Acids. It also manufactures nutraceutical intermediates like Tocopherol and Sterols.

Adi's key customers include Asian Paints, Arkema, BASF (USA), Cargill (USA), ADM (USA), AOMC (Argentina) etc.

4. *What is Adi's staff strength?*

Adi has 177 people strong team.

5. *What has been Adi's profitability over last 5 years?*

Adi generated an EBITDA of Rs 149 mm in FY12 and Rs 233 mm in FY16, implying a CAGR of 11.8%.

6. *What is Adi's manufacturing capacity? Where are Adi's manufacturing plants located?*

Adi has a state-of-the-art manufacturing unit of 45,000 Metric Ton Per Annum (MTPA) capacity located at Sanand, Ahmedabad

7. *What is Adi's manufacturing process?*

Adi's manufacturing capacity include processes like splitting, fractionation, Dimerising and Distillation of Acid Oil and Deodorizer Distillate to produce Linoleic acid, Dimer and Monomer Fatty Acids, Distilled Fatty Acids, Tocopherols, Sterols etc.

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8. *What are Adi's key competitive advantages?*

- Leading manufacturer in India for substantial part of its revenue
- Enjoys leadership position in the industry due to high barriers to entry
- Uses by-products of vegetable oil processing giving it a price advantage
- 10+ years relationship with key raw material suppliers
- Favourable competence to pass on the fluctuation in the raw material prices
- Well entrenched customer relationships in high growth industries like paints, Inks, FMCG
- Premium pricing from customers due to quality of products

9. *What are the key growth drivers for Adi?*

- Niche player in the Oleo chemicals and Tocopherol market using renewable resources giving it a distinct price advantage vis-a-vis peers
- The global oleo chemicals market value is expected to grow at ~ 6% CAGR from around \$20 billion in 2015 to \$27 billion by 2020
- The global Tocopherol market is expected to grow to \$5 billion by 2020
- Adi has good raw material sourcing capabilities and excellent long lasting global large client relationships
- Adi focuses on renewable speciality chemicals, the demand for which has been rising consistently

Privi Organics Limited ("Privi")

10. *What is the business of Privi?*

Privi manufactures various speciality chemicals which have a typical fragrance and are used as aroma chemicals. When a number of such aroma chemicals are blended then a fragrance is formed. These fragrances are then used in day to day consumption products like soaps, detergents, shampoos, hand-wash, floor wash, etc. A perfume, for instance, contains over 15-20 different aroma chemicals and a carrier.

11. *What are Privi's key raw materials? What steps is Privi taking to ensure sustainable supply of raw materials over a long term?*

Privi's key raw materials include α -Pinene and β -Pinene, both obtained from Pine trees. A Pine tree can be tapped (like familiar rubber tree tapping) to extract these chemicals which uses Pine tree barks as raw material. In the Pulp making process α and β Pinene come out as waste as they are contaminated with foul smelling Sulphur compounds. Privi is one of the very few global companies, which has the technology to remove such foul impurities and obtain pure α and β Pinene. Privi has medium to long term contracts for sourcing these raw materials.

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12. What are Privi's key products? Who are Privi's key customers?

Dihydromyrcenol, Amber Fleur, Derivatives of Citral, Sandal products, Ortho & Para Tertiary Butyl Phenol are key products of Privi.

Privi's main customers are Indian and global giants in the field of Flavour & Fragrances – Givaudan, Firmenich, Symrise, Takasago as well as FMCG companies like P&G, Henkel.

13. What is Privi's staff strength?

Privi has 729 people strong team.

14. What has been Privi's profitability over last 5 years?

Privi generated an EBITDA of Rs 468 mm in FY12 and Rs 855 mm in FY16, implying a CAGR of 16.3%..

15. What is Privi's manufacturing capacity? Where are Privi's manufacturing plants located?

Privi's has an installed capacity of 22,000 MTPA across 4 manufacturing plants. Privi's manufacturing plants (three) are located at Mahad, district Raigad in Maharashtra and one plant is located in Jhagadia, near Ankleshwar, Gujarat.

16. What is Privi's manufacturing process?

Privi's manufacturing process involves several chemical reactions like Hydrogenation, Grignard Reaction, Hydration, Aldol Condensation, Cyclization, and Diels –Alder reaction and there are a number of separation processes like distillation.

17. What are Privi's key competitive advantages?

- Privi is an integrated manufacturer of aroma chemicals which enables Privi to make its raw materials (for 70% of business) from Crude Sulphated Turpentine – waste generated Pulp mill. This provides cost advantage and visibility of raw material cost to Privi.
- Privi's main competitors are international companies. Being based in India, Privi gets the benefit of lower employee and overhead costs.
- Privi makes over 50 products – widest product range in the industry. Thus Privi is one stop shop for many customers – this provides inter-product support.
- Strong R&D initiatives have enabled Privi to add value to by-products formed in processing. The value addition provides an opportunity to Privi to be more competitive.

18. What are the key growth drivers for Privi?

Privi's future growth comprises i) developing, manufacturing and supplying additional (newer) aroma chemicals to the same set of customers, ii) making value added products from by-products made in manufacturing of aroma chemicals and iii) strengthening margins by increasing the backward integration capacities.

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Transaction Related

19. What are the details of the scheme of arrangement for merger of Adi and Privi (“Scheme”)?

- The Scheme provides for the demerger and transfer of the aroma chemicals Business of Privi to Adi Aromatics Limited (“AAL”), a wholly owned subsidiary of Adi.
- The Appointed Date for the Scheme is August 1, 2016.
- In consideration of the demerger, the equity shares of Adi will be issued to the shareholders of Privi as on the Record Date, based on the swap ratio of 27 (twenty seven) equity shares of Rs. 10/- each of Adi for every 40 (forty) equity shares of Rs. 10/- each of Privi and 27 compulsorily convertible preference shares of Rs. 10/- each for every 40 (forty) equity shares of Rs. 10/- each of Privi, as recommended in the Valuation Report dated 12 July 2016 issued by M/s. Walker Chandiook & Co. LLP, Independent Chartered Accountants (a member firm of Grant Thornton in India). ICICI Securities Limited has issued a fairness opinion on the exchange ratio.
- The equity shares issued by Adi to the shareholders (including public shareholders) of Privi as on the Record Date pursuant to the Scheme would be listed on BSE and NSE.
- The remaining business of Privi and all the remaining assets, liabilities and obligations relating or pertaining thereto shall continue to belong solely to and continue to be vested solely in and be managed by Privi.
- The Scheme is and shall be conditional upon and subject to the approvals and/or sanctions laid down therein.

20. Is Adi Aromatics Limited acquiring the entire business of Privi? Is there any part of Privi’s business that is not merged under the proposed scheme of arrangement for merger of Adi and Privi?

AAL is acquiring entire aroma chemicals business of Privi. A very small trading business (unrelated to the core aroma chemicals business) is not being demerged into AAL which will be left behind in Privi post the demerger.

21. What is the deal structure? What are the terms of Compulsorily Convertible Preference Shares (“CCPS”)?

With effect from the Appointed date being 1 August 2016, the Scheme provides for the demerger and transfer of the aroma chemicals business of Privi to AAL, a wholly owned subsidiary of Adi. In consideration for the demerger, Adi to issue equity shares and CCPS in the agreed swap ratio to the shareholders of Privi existing on the record date.

Key terms of CCPS are broadly as under:

- Conversion ratio – 1:1
- 0.0001% per annum on non-cumulative basis, non-voting, and shall remain unlisted until conversion
- Conversion period – 18 months from the date of allotment of CCPS

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22. What is the swap ratio at which Adi and Privi is proposed to be merged?

27 (twenty seven) equity shares of Rs. 10/- each of Adi for every 40 (forty) equity shares of Rs. 10/- each of Privi; and

27 compulsorily convertible preference shares of Rs. 10/- each for every 40 (forty) equity shares of Rs. 10/- each of Privi

23. Who are the valuation advisors to the boards of Adi and Privi?

Valuation report is issued by M/s. Walker Chandiook & Co. LLP, Independent Chartered Accountants (a member firm of Grant Thornton in India). The fairness opinion on valuation report is issued by ICICI Securities Ltd, Merchant bankers.

24. Is Fairchem Speciality Limited a newly incorporated legal entity? Will the legal entities of Adi and Privi cease to exist after the merger?

Fairchem Speciality Limited ("Fairchem") is not a new legal entity. It is the proposed new name for Adi which will continue to exist. Aroma chemical business of Privi will be demerged into AAL which is a 100% subsidiary of Adi. Privi (the legal entity) including the remainder business (trading operations non-core to the aroma chemicals business) will continue to be owned by the Privi shareholders.

25. Is Fairchem a publicly listed entity? Will it continue to be listed after the merger?

Adi's will be renamed Fairchem. Yes, Fairchem will continue to be listed after the merger.

26. Is the proposed merger subject to completion conditions or regulatory approvals?

Yes. The Scheme is subject to approvals from shareholders, creditors, stock exchanges, SEBI, High Court and other regulatory bodies.

27. How much time will it take for the proposed merger to complete?

The Scheme is expected to close by March 2017 subject to requisite regulatory approvals.