

## **RBSA Valuation Advisors LLP**

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# **REPORT ON EQUITY SHARE ENTITLEMENT RATIO FOR DEMERGER OF DEMERGED UNDERTAKING OF KESORAM INDUSTRIES LIMITED INTO CYGNET INDUSTRIES LIMITED**

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Private and Confidential

Report Reference Number: RVA2223BOMREP014

Date: May 11, 2022

The Board of Directors,  
Kesoram Industries Limited  
9/1 R. N. Mukherjee Road,  
Kolkata-700 001,  
West Bengal

The Board of Directors,  
Cygnat Industries Limited  
Birla Building, 8<sup>th</sup> Floor,  
9/1 R. N. Mukherjee Road,  
Kolkata-700 001, West Bengal

**Subject: Recommendation of equity share entitlement ratio for the proposed demerger of Demerged Undertaking of Kesoram Industries Limited into Cygnat Industries Limited**

Dear Sirs,

We refer to our engagement letter dated May 02, 2022, wherein Kesoram Industries Limited ("KIL" / "Company" / "Client") has requested RBSA Valuation Advisors LLP ("RBSA", "Valuer"), to recommend equity share entitlement ratio for the proposed demerger of the Demerged Undertaking (as defined hereinafter) of KIL, on a 'going concern value' premise, into Cygnat Industries Limited ("CIL" / "Resulting Company"), pursuant to a scheme of arrangement under section 230-232 of the Companies Act, 2013, and other applicable provisions of the Companies Act, 2013, read with Section 2(19AA) and other applicable provisions of the Income Tax Act, 1961 (the "Scheme").

CIL is a wholly owned subsidiary of KIL. KIL and CIL are together referred to as the "Specified Companies"

The equity share entitlement ratio for the purpose of this Report refers to the number of fully paid-up equity shares of face value INR 10/- each to be issued by CIL to the equity shareholders of KIL as a consideration for the proposed demerger of the Demerged Undertaking on a 'going concern value' premise into CIL (the "Share Entitlement Ratio")

This Report is subject to the scope, assumptions, exclusions, limitations, and disclaimers detailed hereinafter.

As such, the Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

### CONTEXT AND PURPOSE OF THIS REPORT

We understand that the Board of Directors of KIL propose to demerge the Demerged Undertaking of KIL into CIL with effect from April 01, 2022, pursuant to the Scheme ("Proposed Transaction").

As consideration for the transfer of Demerged Undertaking, equity shares of CIL shall be issued to the equity shareholders of KIL. Upon Scheme becoming effective and upon allotment of equity shares by the Resulting Company, the shares held by KIL in CIL shall be cancelled, extinguished, and annulled.





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In this context, the Board of Directors of KIL have requested RBSA to submit a report ("Report") recommending the equity share entitlement ratio for the proposed demerger of the Demerged Undertaking of KIL on a 'going concern value' premise into CIL, pursuant to the Scheme. The scope of our services is to arrive at the share entitlement ratio for the Proposed Transaction in accordance with the standards prescribed by the Institute of Chartered Accountants of India.

### SOURCES OF INFORMATION

In connection with the preparation of this Report, we have relied on the following information received from the management of KIL (the "Management"),

- Shareholding pattern of KIL as of March 31, 2022;
- Discussions with the Management to augment our knowledge on the operations of the Companies / Demerged Undertaking;
- Draft Scheme;
- Such other information, explanations and representations that were required and provided by the Management;
- Such other analysis, inquiries, and reviews as we considered necessary.

### BACKGROUND OF THE SPECIFIED COMPANIES AND DEMERGED UNDERTAKING

#### Kesoram Industries Limited:

KIL is primarily engaged, directly or indirectly through its wholly owned subsidiary, in the businesses of manufacture and sale of cement, rayon, transparent paper and chemicals. Cement manufacturing is the primary business of the Company. KIL's cement units have an aggregate capacity of 10.75 mtpa and are based out of Karnataka and Telangana. The business of manufacture and sale of chemicals being carried directly by KIL is presently under suspension.

The Share Capital of KIL as of March 31, 2022, is as under:

Particulars	Amount (INR)
24,40,24,163 Equity Shares of INR 10 each #	2,44,02,41,630
7,84,933 Partly Paid-up Equity Shares of INR 5 each ##	39,24,665
<b>Total</b>	<b>2,44,41,66,295</b>

# Includes 70,41,875 equity shares underlying Depository Receipts

## Out of the above partly-paid up shares, 422,638 equity shares have been fully paid up as at date

Source: Information provided by the Management

The equity shares of KIL are listed on BSE Limited, The National Stock Exchange of India Limited and the Calcutta Stock Exchange Limited. KIL's Global Depository Receipts ("GDR") are listed on Societe de la Bourse de Luxembourg ("Luxembourg SE").





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We understand from the Management that:

- KIL has issued GDRs that are presently listed on the Luxembourg SE. The relevant rules prescribed by the SEBI Circular No. SEBI/HO/MRD/DOP1/CIR/P/2019/106 dated October 10, 2019 read with Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2019/146 dated November 28, 2019 do not recognise Luxembourg SE.
- The GDR holders in KIL listed with Luxembourg SE are not eligible for issuance of similar GDRs in CIL under the current guidelines on Global Depository Receipts and accordingly the Scheme does not envisage issuance of GDRs by the CIL to the holders of the GDRs in KIL.

We have relied on the Management in respect of the aforementioned, and our Share Entitlement Ratio is based on this premise.

### Cygnat Industries Limited:

CIL is an unlisted public limited company incorporated in June 2015, under the provisions of the Companies Act, 2013. CIL is a wholly owned subsidiary of KIL. CIL is primarily engaged in the businesses of manufacture and sale of rayon, transparent paper, and chemicals business.

The share capital of CIL as of March 31, 2022, is as under:

Particulars	Amount (INR)
92,65,36,876 Equity Shares of Rs 10 each	9,26,53,68,760
<b>Total</b>	<b>9,26,53,68,760</b>

Source: Information provided by the Management

### Demerged Undertaking:

Demerged Undertaking means all the business, undertakings, properties, investments and liabilities of whatsoever nature and kind and where so ever situated, of the Demerged Company, in relation to and pertaining to the Rayon (including the brand name "Kesoram Rayon"), Transparent Paper and Chemicals Business (including the erstwhile Hindustan Heavy Chemical business) on a going concern basis, including all the equity shares held by KIL in CIL, representing its strategic investment as on the Appointed Date, together with all its assets and liabilities

### **EXCLUSIONS AND LIMITATIONS:**

- Provision of valuation opinions and consideration of the issues described herein are areas of our regular practice. These services do not represent accounting, assurance, accounting and tax due diligence, consulting or tax related services that may otherwise be provided by us or our affiliates.
- The scope of our services is to recommend a Share Entitlement Ratio for the Proposed Transaction. Valuation Standards ("ICAI VS") issued by the Institute of Chartered Accountants of India has been adopted for the valuation.





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- This Report, its contents and the results herein are (i) specific to the purpose of valuation agreed as per the terms of our engagement; (ii) the date of the Report and other information provided by the Management.
- A valuation of this nature is necessarily based on the information made available to us as of the date hereof, the prevailing market conditions, financial, economic, and other conditions in general and industry trends in particular, as of the Valuation Date. Events occurring after the date hereof may affect this Report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this Report.
- The recommendation rendered in this Report only represents our recommendation based upon information till date, furnished by the Management (or its representatives) and other sources and the said recommendation shall be considered to be in the nature of non-binding advice. Our recommendation will however not be used for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors.
- Determination of Share Entitlement Ratio is not a precise science and the conclusions arrived at in many cases will, of necessity, be subjective and dependent on the exercise of individual judgement. There is, therefore, no single undisputed Share Entitlement Ratio. While we have provided our recommendation of the Share Entitlement Ratio based on the information available to us and within the scope of our engagement, others may have a different opinion. The final responsibility for the determination of the Share Entitlement Ratio at which the Proposed Transaction shall take place will be with the Board of Directors of KIL who should take into account other factors such as their own assessment of the Proposed Transaction and inputs from other advisors.
- In the course of the valuation, we were provided with both written and verbal information. In accordance with the terms of our engagement, we have assumed and relied upon, without independent verification the accuracy and completeness of information made available to us by KIL. We have not carried out a due diligence or audit of the information provided for this engagement, nor have we independently investigated or otherwise verified the data provided. We do not express any form of assurance that the financial information or other information as prepared and provided by KIL is accurate and no responsibility is assumed for matters of a legal nature.
- This Report does not look into the business/ commercial reasons behind the Proposed Transaction nor the likely benefits arising out of the same. Similarly, it does not address the relative merits of the Proposed Transaction as compared with any other alternative business transaction or other alternatives or whether such alternatives could be achieved or are available.
- The Report assumes that the Specified Companies and the Demerged Undertaking comply fully with relevant laws and regulations applicable in all its area of operations and usage unless otherwise stated, and that they will be managed in a competent and responsible manner. Further, unless specifically stated to the contrary, this Report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigations and other contingent liabilities that are not recorded/ reflected in the provisional financial statements provided to us. Our assumption of value assumes that the assets and liabilities of the Specified Companies and the Demerged Undertaking, reflected in the respective latest balance sheets remain intact as of this Report date.





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- We owe responsibility to only the Boards of Directors of KIL and CIL who have appointed us under the terms of our engagement letter and nobody else. We will not be liable for any losses, claims, damages, or liabilities arising out of the actions taken, omissions of or advice given by any other advisor to the Specified Companies. In no event shall we be liable for any loss, damages, cost, or expenses arising in any way from fraudulent acts, misrepresentations, or willful default on part of the Specified Companies, their directors, employees, or agents. In no circumstances shall the liability of a Valuer, its partners, its directors, or employees, relating to the services provided in connection with the engagement set out in this Report shall exceed the amount paid to the Valuer in respect of the fees charged by it for these services. We do not accept any liability to any third party in relation to the issue of this Report. It is understood that this analysis does not represent a fairness opinion on the Share Entitlement Ratio. This Report is not a substitute for the third party's own due diligence/ appraisal/ enquiries/ independent advice that the third party should undertake for his purpose.
- Neither this Report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties other than in connection with the Scheme, without our prior written consent. This Report does not in any manner address the prices at which equity shares of the Specified Companies will trade following the consummation of the Proposed Transaction and we express no opinion or recommendation as to how the shareholders of KIL should vote at the shareholders' meeting(s) to be held in connection with the Proposed Transaction.
- This Report is intended only for the sole use and information of the Board of Directors of KIL in connection with the Proposed Transaction including for the purpose of obtaining regulatory approvals, as required under applicable laws of India, for the proposed demerger. Without limiting the foregoing, we understand that KIL may be required to share this Report with their shareholders, regulatory or judicial authorities and merchant banker providing fairness opinion on the Share Entitlement Ratio, in connection with the Proposed Transaction (together, "Permitted Recipients"). We hereby give consent to such disclosure of this Report, on the basis that the Valuer owes responsibility only to KIL who has engaged us, under the terms of the engagement, and to no other person; and that, to the fullest extent permitted by law, the Valuer accepts no responsibility or liability to any other party, in connection with this Report. It is clarified that reference to this Report in any document and / or filing with Permitted Recipients, in connection with the Proposed Transaction, shall not be deemed to be an acceptance by the Valuer of any responsibility or liability to any person/ party other than KIL and CIL.
- The Management has informed us that there are no unusual / abnormal events in the Specified Companies till the Report Date materially impacting their operating / financial performance. Further, the Management has informed us that all material information impacting the Specified Companies has been disclosed to us and that there would be no variation between the draft Scheme of Arrangement and the final scheme approved and submitted with the relevant authorities.
- The fee for the engagement is not contingent upon the results reported.
- This Report is subject to the laws of India.





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### BASIS OF SHARE ENTITLEMENT RATIO

The Proposed Transaction contemplates demerger of Demerged Undertaking of KIL and transfer to CIL, pursuant to the Scheme. As a consideration for the transfer of Demerged Undertaking, CIL shall issue its equity shares to the equity shareholders of KIL. Further, upon the Scheme becoming effective and upon allotment of equity shares by the CIL to KIL shareholders, the equity shares held by KIL in CIL shall be cancelled, extinguished, and annulled.

KIL has issued GDRs that are presently listed on the Luxembourg SE. The relevant rules prescribed by the SEBI Circular No. SEBI/HO/MRD/DOP1/CIR/P/2019/106 dated October 10, 2019 read with Circular No. SEBI/HO/MRD2/DCAP/CIR/P/2019/146 dated November 28, 2019 do not recognise Luxembourg SE. The GDR holders in KIL listed with Luxembourg SE are not eligible for issuance of similar GDRs in CIL under the current guidelines on Global Depository Receipts and accordingly the Scheme does not envisage issuance of GDRs by the CIL to the holders of the GDRs in KIL. We have relied on the Management in respect of the aforementioned, and our Share Entitlement Ratio is based on this premise.

Accordingly, the eligible shareholders of KIL are and will, upon demerger, be ultimate economic beneficial owners of CIL *inter-se* in the same proportion as they hold in KIL.

As per clause 4(b) of Annexure I of circular CFD/DIL3/CIR/2017/21 dated March 10, 2017, issued by the SEBI, a Valuation Report is not required where there is no change in the shareholding pattern of the listed entity/resultant entity.

Considering *inter-alia*, the capital structure, serviceability and other factors, the Management has proposed a Share Entitlement Ratio of 1 (One) fully paid-up equity share of face value INR 10 each of CIL for every 1 (One) fully paid-up equity share of face value INR 10 each in KIL, to the eligible shareholders of KIL, as a consideration for the demerger of Demerged Undertaking on a 'going concern value' premise, pursuant to the Scheme. Further as provided in the Scheme, no GDRs / securities of CIL are to be issued in lieu of GDR issued by KIL, hence no Share Entitlement Ratio has been provided for the same.

Considering the aforementioned and, in particular, that all the eligible shareholders of KIL are and will, upon demerger, be ultimate economic beneficial owners of CIL *inter-se* in the same proportion as they hold in KIL, the Share Entitlement Ratio of 1 (One) fully paid-up equity share of face value INR 10 each of CIL for every 1 (One) fully paid-up equity share of face value INR 10 each in KIL, as proposed by the Management, is fair.

The Proposed Transaction does not require valuation report under SEBI Master Circular SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021, since there is no change in the shareholding pattern of the Demerged Company and the Resulting Company.





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BSE Circular No. LIST/COMP/02/2017-18 dated May 29, 2017, and NSE Circular No. NSE/CML/2017/12 dated June 1, 2017, requires a valuation report to disclose certain information in the specified format, which is given below,

Valuation Approaches	Demerged Undertaking (A)		CIL (B)	
	Value Per Share	Weights%	Value Per Share	Weights%
Asset Approach	NA	Nil	NA	Nil
Market Approach	NA	Nil	NA	Nil
Income Approach	NA	Nil	NA	Nil
Relative Value Per Share	NA	Nil	NA	Nil
Share Entitlement Ratio (A/B)	NA			

NA- Not Applicable

Thanking you.

For RBSA Valuation Advisors LLP

RVE No.: IBBI/RV-E/05/2019/110

Samir D. Shah

Partner

Asset Class: Securities or Financial Assets

RV No.: IBBI/RV/06/2019/12263

