

S A G S & ASSOCIATES

CHARTERED ACCOUNTANTS

62 Selimpur Lane Dhakuria,
Kolkata - 700031

September 26, 2018

Strictly Privileged & Confidential

The Board of Directors
Shree Manufacturing Company Limited
Suite 712, Prasad Chambers
Opera House Mumbai City
Maharashtra - 400004

Dear Sir/Madam,

Re: Report on Valuation of Shree Manufacturing Company Limited ("SMCL") for the proposed Scheme of Arrangement between SMCL and its Shareholders.

This is with reference to the engagement letter and discussions held, wherein we, S A G S & Associates, (Chartered Accountant Firm) (referred to as "Valuer" or "we" or "us"), have been appointed to value the equity shares of Shree Manufacturing Company Limited ("SMCL") for the proposed scheme of Arrangement of SMCL with its Shareholders with effect from Appointed Date of April 1, 2018.

1. BRIEF BACK GROUND

1.1 Shree Manufacturing Company Limited ("SMCL")

- 1.1.1 SMCL is a manufacturing company in the textile sector. The shares of SMCL is listed at BSE Limited ("BSE") and Kolkata Stock Exchange Limited (CSE)
- 1.1.2 The total issued & paid up capital of the Company as on 31st March, 2018 is Rs. 8,37,02,770/- comprising of 55,00,277 Equity Shares of Rs. 10/- each amounting to Rs. 5,50,02,770/- and 2,87,000, 12% Cumulative Redeemable Preference Shares of Rs. 100/- each amounting to Rs. 2,87,00,000/-. The Cumulative Redeemable Preference Shares are being entirely hold by the Promoters and equity shareholding pattern are as follows:

Sl. No	Category	No. of Shares	% Holding
a.	Promoter & Promoter Group	34,12,597	62.04%
b.	Public	20,87,680	37.96%
	Total	55,00,277	100.00%

- 1.1.3 The Management of SMCL represented that SMCL does not have any outstanding warrants/options, as at the date hereof.
- 1.1.4 Subsequent to March 31,2018 there is no change in the issued, subscribed and paid-up capital of SCML.

2. SCOPE & PURPOSE

- 2.1 We are given to understand that the Board of Directors of the company proposed to undertake to issue fresh Equity Shares at premium against the face value of the existing preference share in view of substantial accumulated losses and inability to repay the preference shareholder.



- 2.2 In addition to the above, the proposed scheme will, inter- alia results in the following benefits.
- (i) The net worth of the company will not be affected by the proposed conversion of Preference Share to Equity Shares under this scheme.
 - (ii) The Equity Shareholders will be benefited as the Company will be able to conserve the resources which would otherwise have been utilized in payment of dividend and redemption of Preference Shares.
 - (iii) For Equity Shareholders, there will be no prior claims on account of Preference Shares at the time of distribution of Profits or repayment of capital.
- 2.3 As part of the proposed Scheme all the existing Preference Shares as on the Appointed Date Shall be converted into Equity shares at a price of ₹ 10.25/- per share (at premium).(Face Value Rs.10/- per share and Premium Rs.0.25/- per share)
- 2.4 For this purpose, as requested we have carried out valuation of shares of SMCL as on March 31,2018 in connection with the proposed scheme. This Valuation Report ("Valuation Report") may be placed before the audit committee to the extent mandatorily required under applicable laws of India, may be produced before judicial, regulatory or government authorities, in connection with the Scheme.
- 2.5 This valuation Report is subjected to the exclusions, limitation & disclaimers detailed hereinafter. As such the valuation Report is to be read in totality, and not in parts, in conjunction with-the relevant documents referred to therein.

3. SOURCES OF INFORMATION

- 3.1 In connection with preparing this Valuation Report, we have received & relied upon the following sources of information from the Management of the Company.
- 3.1.1 Draft Scheme of Arrangement
 - 3.1.2 Audited annual accounts of SMCL for FY 2016-17 to FY 2017-18
 - 3.1.3 Shareholding pattern of SMCL as on March 31, 2108
 - 3.1.4 Published and Secondary source of data, whether or not made available by the company and such other analysis, reviews and inquires as we considered necessary.

4. SCOPE LIMITATIONS, ASSUMPTIONS, EXCLUSIONS AND DISCLAIMERS

- 4.1 This valuation report, its contents and the results are (i) specific to the purpose mentioned in this report, (ii) specific to the date of this valuation report and (iii) are based on the balance sheet of SMCL as at March 31, 2018. The management has represented that the business activities of SMCL have been carried out in the ordinary course even after March 31, 2018.
- 4.2 In accordance with the terms of our engagement, we have assumed and relied upon, without independent verification, (i) the accuracy of information (both written & verbal) made available to us by the company and (ii) the accuracy of information that was publicly available, and formed substantial basis for this Valuation Report. We have not carried out a due diligence or audit of the company, nor have we independently investigated or otherwise verified the data provided by the company. In rendering this valuation report, we have not provided legal, regulatory, tax, accounting or actuarial advice and accordingly we do not assume any responsibility or liability in respect thereof. We do not express any opinion or offer any form of assurance that the explanations, financial



information or other information as prepared and provided by the company is accurate and complete. Also, with respect to explanations and information sought from the company, we have been given to understand by the company that they have not omitted any relevant and material factors and that, in case of any doubt, they have checked the relevance or materiality of any specific information with respect to the present exercise with us.

Accordingly, we do not express any opinion or offer any form of assurance regarding its accuracy and completeness.

- 4.3 Our conclusion is based on the assumptions and information given by/on behalf of the company. The respective Management of the company has indicated to us that they have understood that any omissions, inaccuracies or mis-statements may materially affect our valuation analysis/results. Accordingly, we assume no responsibility for any errors in the information furnished by the company and their impact that the information provided was materially mis-stated/incorrect. We do not imply and it should not be construed that we have verified any of the information provided to us, or that our inquiries could have verified any matter, which a more extensive examination might disclose.
- 4.4 During the course of work, we have relied upon the financial projections of SMCL provided to us by the Management. The assumptions underlying the projections have not been reviewed or independently verified by us and accordingly there can be no assurance that these assumptions are accurate. We must emphasize that realizations of the free cash flow forecast used in the analysis will be dependent on the continuing validity of the assumptions on which they are based. The assumptions used in their preparation, as we have been explained, are based on the management's present expectation of both the most likely set of future business events and circumstances and the management's course of action related to them. Our analysis, therefore will not, and cannot be directed to providing any assurance about the achievability of the final projections. Since, the projections relate to the future, actual results may be different from the projected results because events and circumstances do not occur as expected, and differences may be material.
- 4.5 Valuation work, by its very nature, cannot be regarded as an exact science and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgement. Given the same set of facts and using the same assumptions, expert opinion may differ due to number of separate judgement decisions, which have to be made. There can therefore be no standard formula to establish an undisputable value, although certain formulae are helpful in assessing reasonableness. There is, therefore no indisputable single exchange ratio. While we have provided our recommendation of the Exchange Ratio based on the information available to us and within the scope and constraints of our engagement. others may have a different opinion as to Exchange Ratio. You acknowledge and agree that you have the final responsibility for the determination of the Exchange Ratio at which the proposed arrangement shall take place and factors other than this Valuation Report will need to be considered in determining the Exchange Ratio, these will include your own assessment of the proposed scheme and may include the input of other professional advisors.
- 4.6 This report and its contents is prepared for the company and to be used only for the specific engagement and regulatory reporting purposes and must not be copied, disclosed or circulated or referred to or quoted in any correspondence, registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or discussion with any person. The report is confidential to the company and it is given on the express undertaking that it will not be communicated, in whole or in part, to any third party without prior written consent of the valuer. Neither this report not its contents may be used for any other purpose other than in connection with this proposed Scheme of Arrangement without prior written consent of the valuer.



- 4.7 Whilst all reasonable care has been taken to ensure that the facts stated in the report are accurate and all opinions given are fair and reasonable, neither ourselves, nor any of our partners, officers or employees shall in any way be responsible for the contents stated herein. Accordingly, we make no representation or warranty, express or implied, in respect of completeness, authenticity or accuracy of such statements. We expressly disclaim any and all liabilities, which may arise based upon the information used in this report. We owe responsibility only to the board of directors of the company and nobody else. We are not liable to any third party in relation to the issue of this report. In no event we shall be liable for any loss, damage, cost or expense arising in any way from fraudulent acts, misrepresentations or wilful default on the part of the company, their management, directors, employees or agents.
- 4.8 A valuation of this nature is necessarily based on prevailing stock market, financial, economic and other conditions in general and industry trends in particular as in effect on, and the information made available to us as of, the date hereof. Events occurring after the date hereof, may affect this Valuation Report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this Valuation Report. However, we reserve the right to amend or replace the report at any time in the event of any material change in the facts presented to us.
- 4.9 The Valuation Report assumes that the company complies fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the Company will be managed in a competent and responsible manner. Further, except as specifically stated to the contrary, this Valuation Report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigation and other contingent liabilities that are not recorded in the audited balance sheet of the Company. Our conclusion of value assumes that the assets & liabilities of the Company, reflected in their respective latest balance sheets remain intact as of the date hereof.
- 4.10 This Valuation Report does not look into the business/commercial reasons behind the proposed Scheme nor the likely benefits arising out of the same. Similarly, it does not address the relative merits of the proposed Scheme as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.
- 4.11 This Valuation 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. In addition, this Valuation Report does not in any matter address the price at which equity shares will trade following approval of the Scheme and we express no opinion or recommendation as to how the shareholders or creditors of company should vote at their respective meeting(s) to be held in connection with the proposed Scheme.
- 4.12 The fee this engagement in not contingent upon the results of this report.

5. VALUTATION APPROACH

5.1 Approaches for Valuation

There are three generally accepted approaches to valuation:

- a. "Cost" Approach
- b. "Market" Approach
- c. "Income" Approach



a. Cost Method.

The "Cost" approach focuses on the net worth or net assets of a company. The Cost Approach to valuation includes two methods- Break Value ("BV") Method and Net Asset Value ("NAV") Method.

BV Method:

- ❖ Under the BV Method, the assets and liabilities are considered at their realizable/market including intangible assets & contingent liabilities, if any, which are not stated in the balance sheet. From the realizable value of the assets, the potential liabilities, which would have to be paid, would be deducted and resultant figure would be the BV of the company.
- ❖ This valuation approach is mainly used in case where the asset base dominates earnings capability or in case where the valuing entity is Holding company deriving significant value from its Assets & Investments.

NAV Method:

- ❖ Under this method, total value of the business is based on sum of the Net Assets Value as recorded in the balance sheet.
- ❖ NAV methodology is most applicable for the business where the value lies in the underlying assets and not the ongoing operations of the business.
- ❖ Since the net worth the Company is negative. Therefore, the net assets value of the Company is also negative. (Working Annexed as Annexure "A")

b. Income Approach

The "Income" approach focuses on the profit/earnings potential of the business being valued. The Income Approach to valuation includes two methods- Profit Earning Capacity Value ("PECV") Method and Discounted Cash Flow("DCF") Method. The "Income" approach focuses on the income generated by the company as well as its future earning capability.

PECV Method:

- ❖ The PECV method focuses on the past income generated by the company as well as the future earning capability of the business enterprise. The PECV method requires the determination parameters, which are relevant to the company whose shares are being valued. These are (i) the "future maintainable profits", (ii) the 'appropriate income tax rate' and (iii) the 'expected rate of return'. The value is determined by capitalizing the future maintainable profits (net of tax) by the expected rate of return.

DCF Method:

- ❖ The DCF Method seeks to arrive at a value of a business based on the strength of its future cash flows. This method also captures the risk involved with these cash flows.
- ❖ Under this method, the business is valued by discounting its free cash flows for an explicit forecast period and the perpetuity value thereafter. The free cash flows to the firm ("FCFF") represent the cash available for the distribution to both the owners and the creditors of the business. The free cash flows in the explicit period and those in perpetuity are discounted by Weighted Average Cost of Capital ("WACC"). WACC is an



appropriate rate of discount to calculate the present value of the future free cash flows as it considers debt-equity risk and also debt-equity ratio of the company/industry.

- ❖ To the present value of the cash flows so arrived, adjustments are made for the value of debt, surplus/non-operating assets including investments, surplus cash & bank balance and contingent assets/liabilities and other liabilities, if any, in order to arrive at the value for the equity shareholders. The total value for the equity shareholders so arrived has to be then divided by the number of equity shares in order to work out the value per equity share of the company.
- ❖ We have not considered DCF method for the present valuation as SMCL does not have business operation. We also understand that reliable forecasts cannot be prepared for SMCL as well.

c. Market Approach

Market Price Method:

Under this method, the market price of an equity shares as quoted on a recognized Stock Exchange is normally considered as the value of the equity shares of that company, where such quotations are arising from the shares being regularly and frequently traded. The market value generally reflects the investors perception about the true worth of the company.

Since the shares of SMCL are traded on BSE Limited. We have considered this method for valuation of SMCL. We note that the equity shares are infrequently traded.

For determining the prices of shares of SMCL, we have considered SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017, Circular No. CFD/DIL3/CIR/2017/26 dated March 23, 2017 and SEBI (Issue of Capital and Disclosure Requirements) Regulations, which prescribes using Market prices being higher of the following:

- (a) The average of the weekly high and low of the volume weighted average price (VWAP) of the related equity shares quoted on the recognised stock exchange during the twenty six weeks preceding the relevant date; or
- (b) The average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on a recognised stock exchange during the two weeks preceding the relevant date.

However, there has been no trading in the shares of the company for the last twenty six week preceding the relevant date of September 26, 2018. (Working annexed as Annexure "B")

The shares are infrequently traded on BSE Limited. Pursuant to Regulation 76A of SEBI (ICDR) Regulations, 2009 as amended the Issuer has to considered the valuation parameters including book value, comparable trading multiples and such other parameters as for valuation of shares of such companies.

Comparable Companies Multiple ("Coco Multiple") Method:

- ❖ Under Coco Multiple Method, the value is determined on the basis of multiples derived from valuations of comparable companies, as manifested through stock market valuations of listed companies.



- ❖ This valuation is based on the principle that market valuation, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

Comparable Transactions Method:

With regard to the multiples applied in an earning-based valuation, they are generally based on data from the recent transactions in a comparable sector, but with appropriate adjustment after due consideration has been given to the specific characteristics of the business being valued.

5.2 VALUATION METHODOLOGIES APPLIED

- 5.2.1 The application of any particular method of valuation depends on the purpose for which the valuation is done. In arriving at the value of the equity shares of SMCL, from amongst the generally accepted valuation methodologies, we have applied methodologies most relevant, applicable and appropriate to the circumstances.
- 5.2.2 For valuation of SMCL we have primarily relied on the Cost Approach-NAV method.
- 5.2.3 Income Approach has not been considered on account of absence of any projected financial information for a sufficient period. Market Approach has not been considered since the shares of the company is not frequently traded in the stock exchange.

6. VALUATION OF SMCL

- 6.1 It should be understood that the valuation of any company or its assets is inherently subjective and is subject to certain uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In performing our analysis, we made numerous assumptions with respect to industry performance and general business and economic conditions, many of which are beyond the control of the company. In addition, this valuation will fluctuate with changes in prevailing market conditions, the conditions and prospects, financial and otherwise, of the Company and other factors which generally influence the valuation of company and their assets.
- 6.2 In the ultimate analysis, valuation will have to involve the exercise of judicious discretion and judgement considering all the relevant factors. There will always be several factors, e.g. present and prospective competition, yield on comparable securities and market sentiments etc. which are not evident from the face of the balance sheets but which will strongly influence the worth of a share. This concept is also recognized in judicial decisions. For example, Viscount Simon Bd in Gold Coast Selection Trust Ltd. Vs. Humphrey reported in 30 TC 209 (House of Lords) and quoted with approval by the Supreme Court of India in the case reported in 176ITR417 as under:

“if the asset takes the form of fully paid shares, the valuation will take into account not only the terms of the agreement but a number of other factors such as prospective yield, marketability the general outlook for the type of business of the company which has allotted the shares, the result of a contemporary prospectus offering similar shares for subscription, the capital position of the company, so forth. There may also be an element of value in the fact that the holding of the shares gives control of the company. If the asset is difficult to value, but is nonetheless of a money value, the best valuation possible must be made. Valuation is an art, not an exact science. Mathematical certainty is not demanded nor indeed is it possible.”



- 6.3 Further, we have been informed by the Management and based on the draft Scheme of Arrangement provided to us. We understand that SMCL is issuing a fresh Equity Shares as against the existing Preference Shares.
- 6.4 Pursuant to SEBI circular No. CFD/DIL3/CIR/2017/21 dated 10th March, 2017, the issuance of shares under Schemes in case of allotment of shares only to a select group of shareholders pursuant to the Scheme shall follow the pricing of provisions of chapter VII of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009. The pricing is to be determined as per SEBI(ICDR) Regulations, 2009.
- 6.5 Considering all the relevant factors and circumstances as discussed and outlined above, we believe that the value of ₹ 287,00,000 as at March 31,2018 on a going concern basis for the Preference Shares of SMCL on a fully diluted basis is fair.
- 6.6 The Net Asset value of the Company is negative and the market value is also not workable as there has been no trading in the shares of the company for the past twenty six weeks. As the shares cannot be issued at the discount. The management of the Company proposes to issue shares at ₹ 10.25/- per Equity share i.e.in the ratio of 1 new Equity share against 1.025 Preference share
- 6.7 Hence propose to issue shares at price of Rs.10.25/- per Equity share.
- 6.8 The Consideration for the Arrangement of SMCL would be discharged as under:
- 28,00,000 Equity shares of ₹10/- each at a price of ₹10.25/- per shares shall be issued and allotted for 2,87,000 Preference shares of ₹100/- each aggregating to Rs.2,87,0,000/-

Thanking You,

Yours faithfully,



Saktimoy Gupta
Membership Number: 050456
For and on behalf of
S A G S & Associates
FRN 312027E

For SAGS & ASSOCIATES
Chartered Accountants



SAKTIMOY GUPTA
PARTNER
M. No.-050456; FRN-312027E

Date: September 26, 2018
Place: Kolkata

Annexure – "A"

Calculation of Equity Net Asset value

Particulars	Amount (₹)
Equity Share Capital	5,50,02,770
Reserve and Surplus	(9,56,73,720)
Net Worth	(4,06,70,950)
No. of Equity Shares	55,00,277
Net Assets Value (₹)	(7.39)

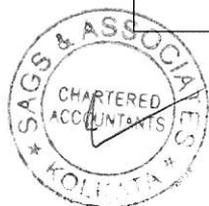


Annexure – “B”

Calculation of Market Price method

Part I: Average of weekly high & low of the volume weighted average price (VWAP) of the equity shares of Shree Manufacturing Company Limited during the last twenty six weeks preceding the relevant date

Weeks	From	To	High	Low	Average
1	28-03-2018	03-04-2018	Not traded	Not traded	Not traded
2	04-04-2018	10-04-2018	Not traded	Not traded	Not traded
3	11-04-2018	17-04-2018	Not traded	Not traded	Not traded
4	18-04-2018	24-04-2018	Not traded	Not traded	Not traded
5	25-04-2018	01-05-2018	Not traded	Not traded	Not traded
6	02-05-2018	08-05-2018	Not traded	Not traded	Not traded
7	09-05-2018	15-05-2018	Not traded	Not traded	Not traded
8	16-05-2018	22-05-2018	Not traded	Not traded	Not traded
9	23-05-2018	29-05-2018	Not traded	Not traded	Not traded
10	30-05-2018	05-06-2018	Not traded	Not traded	Not traded
11	06-06-2018	12-06-2018	Not traded	Not traded	Not traded
12	13-06-2018	19-06-2018	Not traded	Not traded	Not traded
13	20-06-2018	26-06-2018	Not traded	Not traded	Not traded
14	27-06-2018	03-07-2018	Not traded	Not traded	Not traded
15	04-07-2018	10-07-2018	Not traded	Not traded	Not traded
16	11-07-2018	17-07-2018	Not traded	Not traded	Not traded
17	18-07-2018	24-07-2018	Not traded	Not traded	Not traded
18	25-07-2018	31-07-2018	Not traded	Not traded	Not traded
19	01-08-2018	07-08-2018	Not traded	Not traded	Not traded
20	08-08-2018	14-08-2018	Not traded	Not traded	Not traded



21	15-08-2018	21-08-2018	Not traded	Not traded	Not traded
22	22-08-2018	28-08-2018	Not traded	Not traded	Not traded
23	29-08-2018	04-09-2018	Not traded	Not traded	Not traded
24	05-09-2018	11-09-2018	Not traded	Not traded	Not traded
25	12-09-2018	18-09-2018	Not traded	Not traded	Not traded
26	19-09-2018	25-09-2018	Not traded	Not traded	Not traded
			Average Price		Not traded

Part II: Average of weekly high & low of the volume weighted average price (VWAP) of the equity shares of Shree Manufacturing Company Limited during the last two weeks preceding the relevant date

Weeks	From	To	High	Low	Average
1	12-09-2018	18-09-2018	Not traded	Not traded	Not traded
2	19-09-2018	25-09-2018	Not traded	Not traded	Not traded
			Average Price		Not traded

The relevant date is 26th September, 2018

Applicable Price (Higher of the above two) - There has been no trading during last 26 six week preceding the relevant date.



The following table is as per requirement of BSE

ANNEXURE I

The valuation report shall display the workings, relative fair value per share and fair share entitlement ratio in the following manner:

Computation of Fair Share Entitlement Ratio

Valuation Approach	Value per Share (₹)	Weight	Value per Share (₹)
Asset Approach	(7.39)	1	(7.39)
Income Approach	N.A.	N.A.	N.A.
Market Approach	N.A.	N.A.	N.A.
Market Approach Comparable Companies Multiples Method	N.A.	N.A.	N.A.
Relative Value per Share	(7.39)		(7.39)
Entitlement Ratio (rounded off) 1 Equity share of ₹ 10/- each against 1.025 Preference share			

Note 1: We have not considered the Income Approach for the present valuation on account of absence of any projected financial information for a sufficient period

Note 2: Since SMCL's equity shares are not frequently traded hence we have not considered Market Approach – Market Price method for valuation of SMCL. However as per SEBI (ICDR) Regulations, 2009 we have to consider Book value etc.

Note 3: We have not considered the Comparable Companies' Multiples method under Market Approach for valuation of as SMCL does not have any business operation.

Note 4: The Shares are infrequently traded and book value is negative and we cannot issue shares at discount. Therefore the Management has thought it prudent to issue shares at ₹10.25/- per share.

