

M/s. P. CHANDRASEKAR LLP

Chartered Accountants

EQUITY VALUATION REPORT TO DETERMINE THE SHARE EXCHANGE RATIO IN RELATION TO THE AMALGAMATION OF STAR METALLICS AND POWER PRIVATE LIMITED WITH THE SANDUR MANGANESE AND IRON ORES LIMITED

14 February 2018

To,
The Board of Directors,
The Sandur Manganese & Iron Ores Limited
Bangalore

and

To,
The Board of Directors,
Star Metallics and Power Private Limited
Bangalore

Dear Sir(s)/Madam,

Sub: Recommendation of fair equity share exchange ratio for the proposed amalgamation of Star Metallics and Power Private Limited (SMPPL) with The Sandur Manganese and Iron Ores Limited (SMIORE)

We refer to the engagement letters dated 3 October 2017 and 10 November 2017 whereby, Star Metallics and Power Private Limited and The Sandur Manganese & Iron Ores Limited respectively have requested (us) M/S.P. Chandrasekar LLP, Chartered Accountants for recommendation of the Share Exchange Ratio for the proposed amalgamation of SMPPL with SMIORE.

SCOPE AND PURPOSE OF THIS REPORT

We understand that the Board of Directors of the above-mentioned companies are considering to amalgamate SMPPL with SMIORE by implementing a Scheme of Amalgamation under the provisions of Section 230-232 of the Companies Act, 2013. As a part of this proposed merger SMPPL would be merged with SMIORE and would cease to exist. The shareholders of SMPPL will be issued shares of SMIORE as a consideration for the proposed merger.

In this connection, (we) M/S.P. Chandrasekar LLP, Chartered Accountants have been appointed to carry out the relative valuation of equity shares of the Companies and recommend the fair exchange ratio of shares for the proposed amalgamation.



LIMITATIONS/DISCLAIMERS

This report is to be read in totality and not in parts, in conjunction with the relevant documents referred to herein.

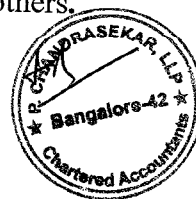
Our analysis, in as far as valuation is concerned, is based on the published data, and those which are made available to us by the management. Our analysis will not and cannot be directed to providing any assurance about achievability of any future plans. By its very nature, valuation work cannot be regarded as an exact science and the conclusion arrived at in many cases will be necessarily subjective and dependent on the individual judgment. Given the same sets of facts and using the same assumptions, expert opinion may differ due to the number of separate judgement, decisions, which have to be made. Therefore, there can be no standard formula to establish and indisputable value, although certain formula is helpful in assessing the reasonableness.

SOURCE OF INFORMATION

In connection with this exercise, we have used the following information provided by the Management of the Transferor Companies and Transferee Company:

- (a) Audited Financial statements of SMPPL and SMIORE for FY 2016-17, 2015-16, 2014-15;
- (b) The projected income statements of SMPPL and SMIORE for the next five years;
- (c) Latest Shareholding Pattern of SMPPL and SMIORE;
- (d) Market Price of equity shares of SMIORE; and
- (e) Interviews and Discussions with the management of SMPPL and SMIORE.

We have obtained information, explanations which are considered relevant, reasonable and necessary for our engagement from the managerial persons and others.



BRIEF ABOUT THE COMPANIES UNDER MERGER/AMALGAMATION

STAR METALLICS AND POWER PRIVATE LIMITED (SMPPL) (CIN U40102KA2007PTC043446), incorporated on 23 July 2007 under the Companies Act, 1956 has its registered office at Metal & Ferro Alloys Plant P. O. Mariyammanahalli, Vyasankere, Hosapete Taluk- 583222, Ballari District, Karnataka.

SMPPL has a ferroalloy plant with two furnaces, and a 32 MW thermal power plant which is used as a captive unit for its ferroalloy operations. Presently, the said ferroalloy plant and Thermal Plant have been leased out to SMIORE under a Facility Lease Agreement dated 1 February 2016 for a tenure of three years.

The issued and subscribed capital of SMPPL, as on date, stands at Rs.93,37,97,050 consisting of 9,33,79,705 equity shares of Rs.10 each. The shareholding pattern is as below:

S. No	Name of the shareholder	No. of Shares	Percentage (%)
1.	The Sandur Manganese & Iron Ores Limited	752,40,000	80.58
2.	Euro Industrial Enterprises Private Limited	181,09,705	19.39
3.	Others (Individuals)	30, 000	0.03
	TOTAL	933,79,705	100.00

THE SANDUR MANGANESE AND IRON ORES LIMITED (SMIORE) (CIN L85110KA1954PLC000759), incorporated on 18 January 1954 under the Companies Act, 1913, has its registered office at 'SATYALAYA', Door No.266 (Old No.80), Ward No 1 Behind Taluk Office, Sandur – 583 119, Ballari District, Karnataka.

SMIORE is in the business of exploration, prospecting and mining of iron ore and manganese ore. The Company is a listed company with its shares listed on BSE Limited. The Company is in the process of making an application for listing its equity shares on National Stock Exchange of India Limited.

The issued and subscribed capital of SMIORE, as on date, stands at Rs.8,75,00,000 consisting of 87,50,000 equity shares of Rs.10 each. The shareholding pattern is as below:

S. No	Name of the shareholder	No. of Shares	Percentage (%)
1.	Promoter and Promoter Group	63,37,564	72.43
2.	Public	24,12,436	27.57
	TOTAL	87,50,000	100.00



METHOD OF VALUATION:

It may be understood that the valuation of any company is inherently subjective and is subject to certain uncertainties and contingencies, which are difficult to predict. Our assumptions are with respect to industry performances and general business and economic conditions. In addition, these valuations fluctuate with the change in the prevailing market conditions.

Any application of a particular method depends on the purpose for which the same is being done. Although different values exist for different purpose it cannot be strongly emphasized that a valuer can arrive at one value for one purpose. Our choice of methodology of valuation has been arrived at using the usual and conventional methodologies adopted for transactions of a similar nature and our reasonable judgment.

The following are commonly used and accepted methods for determining the value of equity shares of a company /business:

1. Market Approach – Market Price Method
2. Income Approach – Discounted Cash Flows Method
3. Asset Approach – Net Asset Value

Market Price (MP) Method:

The market price of equity shares as quoted on a stock exchange is normally considered as the fair value of the equity shares of that company, where such quotations are arising from the shares being regularly and freely traded in; subject to the element of speculative support that may be inbuilt in the value of the shares

In terms of SEBI circular CFD/DIL3/CIR/2017/21 dated March 10, 2017, where the Scheme of Amalgamation entails issuance of shares only to a select group of shareholders or shareholders of unlisted companies pursuant to such schemes shall follow the pricing provisions of Chapter VII of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (hereinafter referred to as “the ICDR Regulations”). Accordingly, in terms of Regulation 76, the price is determined between the higher of the of the following:

- (a) The average of the weekly high and low of the volume weighted average price 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.
- (c) Since SMIORE is a company listed in a recognized stock exchange, the market prices of its shares are readily available. It is fairly reliable as well. Therefore, we have taken into consideration the market price method for valuation of its equity shares. Market prices of its shares are averaged by taking into account its weekly high and low prices for the preceding two weeks period. Similar exercise is done taking into account the prices during the preceding six months to the relevant date, i.e thirty days prior to the date on which the meeting of the general body of the shareholders is held. The higher of the two (i.e) average price for the preceding two weeks and that for the six months period is taken as fair value of its shares.



The detailed working on the same is enclosed in Annexure to this report.

However, equity shares of SMPPL are not listed on any recognised stock exchange and SMPPL being closely held and unlisted, the market price method is not applicable

Income Approach (Discounted Cash Flow Method)

Discounted Cash Flow Method (DCF) expresses the present value of the business as a function of its future cash earnings capacity. It considers time value of money.

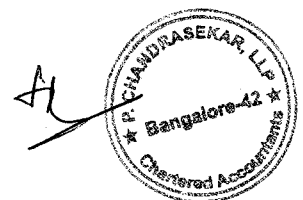
The discounted cash flow (DCF) method values companies by discounting their free cash flows for the explicit forecast period and the perpetuity value thereafter. The free cash flow represents the cash available for distribution to both the owners and creditors of the company. The free cash flows are discounted by Weighted average cost of capital (WACC).

The WACC represents the return expected by the investors of both debt and equity weighted for their relative funding in the equity. The present value of the free cash flows during the explicit period and the perpetuity value indicate the value of the company.

This method is not adopted for SMIORE as the most scientific method of Market Price Method is being adopted.

For SMPPL - DCF method is more scientific as it recognizes time value of money and also considers the future cash earnings capacity. However, SMPPL earnings capacity for applying this method is constrained with the following limitations:

- (1) SMPPL operations since inception have resulted in a loss except for financial year 2014-15.
- (2) SMPPL has an accumulated losses of Rs. 2625.23 lakhs as on 31 March 2017
- (3) The Company is leasing its entire facilities to SMIORE, the parent company from 1 February 2016 for a period of three years. Consequently SMPPL is earning only a fixed income in the form of lease rentals.
- (8) To reduce the power cost of power generated from SMPPL power plant, SMIORE is working on a PIG Iron Project with an ultimate plan of getting into steel manufacturing. The waste heat and flu gas available from the PIG Iron Plant would be used as a fuel to generate power which would reduce the power cost by 50 to 80 % (approximately) compared to power generated from steam coal. The PIG Iron plant would be set up in the same complex of SMPPL and SMPPL would be merged with SMIORE. SMPPL is not in a position to invest on such a scale. Hence, for the reasons stated SMPPL future earnings will be limited to lease rentals. This has an effect on both on earning per share and cash earnings per share.



Net Asset Value Method (NAV Method)

This method considers the value of the underlying assets of the business at book value. Net asset value represents the net equity of the business after assets and liabilities that have been adjusted to their fair value.

As mentioned earlier SMIORE is not following this method as the more scientific Market Price Method is being followed.

For SMPPL This method is considered more appropriate compared to Market Approach and Income Approach for reasons stated. The assets have the potential on merger with the parent company and implementation of downstream project by the parent company. Due to leasing of the plants, as a standalone entity, the earning potential is not appropriately captured by the Income Approach. The detailed working on the same is enclosed in Annexure to this report.

Based on the above , the recommended fair share exchange ratio is as below:

RECOMMENDATION OF FAIR SHARE EXCHANGE RATIO

Valuation Approach	SMIORE		SMPPL	
	Value per share	Weight	Value per share	Weight
Asset Approach	-	-	17	1
Income Approach	-	-	-	-
Market Approach	1219.53	1	-	-
Relative value per share	1219.53		17	

Ratio:

One(1) equity share of The Sandur Manganese & Iron Ores Limited of Rs.10 each fully paid up for every Seventy Two(72) equity shares of Star Metallics and Power Private Limited of Rs.10 each fully paid up."



CONCLUSION:

As presented in this valuation report, our objective was to recommend equity value of SMPPL and SMIORE.


The recommendation has been arrived at after taking into consideration the current and future prospects of the entities on an independent and standalone basis without considering the benefits and other synergies that may arise out of this amalgamation.

In arriving at our recommendation for equity exchange ratio, we have considered Net Asset Value Approach for SMPPL and Market Price Approach for SMIORE, the details of which are enclosed herewith.

Based on this it is recommended that:

Exchange ratio - 1 Equity share of SMIORE will be given for every 72 shares of SMPPL

P. CHANDRASEKAR LLP
Chartered Accountants
FRN 000580S/S200066


S. Rajagopalan
Partner
M. No: 25349



Annexure:**MARKET PRICE METHOD OF SMIORE SHARES:**

Two weeks closing Traded Market Price

Dates	Average Price
31-Jan-18 to 06-Feb-18	1200.90
07-Feb-18 to 13-Feb-18	1238.56
AVERAGE	1219.53

Six Months Average Rate:

Week	From	To	Weekly High of the Volume Weighted Average Price	Weekly Low of the Volume Weighted Average Price	Average Price
1	16-Aug-17	22-Aug-17	782.72	766.59	774.65
2	23-Aug-17	29-Aug-17	792.44	762.46	777.45
3	30-Aug-17	05-Sep-17	824.46	770.65	797.56
4	06-Sep-17	12-Sep-17	888.29	827.62	857.95
5	13-Sep-17	19-Sep-17	881.29	829.92	855.61
6	20-Sep-17	26-Sep-17	904.03	862.37	883.20
7	27-Sep-17	03-Oct-17	859.18	835.37	847.27
8	04-Oct-17	10-Oct-17	899.46	848.93	874.20
9	11-Oct-17	17-Oct-17	890.82	866.52	878.67
10	18-Oct-17	24-Oct-17	1,111.42	902.23	1,006.83
11	25-Oct-17	31-Oct-17	1,112.01	1,092.92	1,102.46
12	01-Nov-17	07-Nov-17	1,097.38	1,058.57	1,077.98
13	08-Nov-17	14-Nov-17	1,014.50	965.01	989.76
14	15-Nov-17	21-Nov-17	1,029.62	983.40	1,006.51
15	22-Nov-17	28-Nov-17	1,021.79	981.89	1,001.84
16	29-Nov-17	05-Dec-17	1,112.49	1,026.45	1,069.47
17	06-Dec-17	12-Dec-17	1,193.45	1,113.47	1,153.46
18	13-Dec-17	19-Dec-17	1,268.72	1,158.78	1,213.75
19	20-Dec-17	26-Dec-17	1,261.44	1,238.40	1,249.92
20	27-Dec-17	02-Jan-18	1,217.80	1,189.43	1,203.62
21	03-Jan-18	09-Jan-18	1,353.20	1,241.41	1,297.31
22	10-Jan-18	16-Jan-18	1,433.06	1,336.25	1,384.66
23	17-Jan-18	23-Jan-18	1,409.46	1,358.06	1,383.76
24	24-Jan-18	30-Jan-18	1,392.81	1,288.24	1,340.53
25	31-Jan-18	06-Feb-18	1,261.12	1,140.68	1,200.90
26	07-Feb-18	13-Feb-18	1265.84	1210.48	1238.16

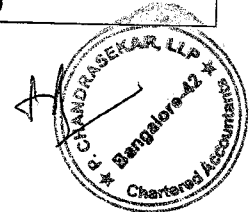
Average is Rs.1056.44

The average market price of the shares of SMIORE is based on the higher of the average market price of the two weeks and six months closing rate which is at **Rs.1219.53**



NET ASSET METHOD VALUATION OF SMPPL SHARES

Description of assets	Prevailing market value as per valuation report dated 30 August 2016	Distress value given by valuer/assumed 85 % when the distress value is not given by valuer	Value considered
Land and buildings	56,82,08,500	482,977,225	482,977,225
Plant and machinery	122,24,00,000	1039,040,000	1039,040,000
Capital work in progress not considered in valuation report			8,279,665
Total value of fixed assets			1530,296,890
Net Non-current assets (Net of liabilities) (based on audited accounts as at 31 March 2017)			22,198,200
Net current assets (net of liabilities) (based on audited accounts as at 31 March 2016)			1,01,831,833
			1654,326,923
Contingent liabilities not provided for			(5,23,38,162)
Net asset value			1601,988,761
No of equity shares			9,33,79,705
Per share value			17.10
Say			17.00



STATEMENT OF EXCHANGE RATIO CALCULATIONS

PARTICULARS	SMPPL	SMIORE
FAIR VALUE OF SHARES (Rs)	17.00	1219.53
EXCHANGE RATIO	72	1

For Every Seventy Two Equity Shares of SMPPL One Equity Share of SMIORE will be given.



P. CHANDRASEKAR LLP

Chartered Accountants

The General Manager,
Department of Corporate Services,
BSE Limited,
P.J. Towers, Dalal Street,
Mumbai – 400 001.

Dear Sir/Madam,

Sub: Clarification in connection with Equity Valuation Report to determine the Share Exchange Ratio in relation to the Amalgamation of Star Metalics and Power Private Limited (SMPPL)(Transferor Company) with The Sandur Manganese & Iron Ores Limited (SMIORE)(Transferee Company) and their respective shareholders

Ref: Application no. 76065

This is in reference to the clarification sought by the Exchange for non-adoption of certain approaches for arriving at valuation of the Transferor and Transferee Company.

The Equity Valuation Report (mentioned in the captioned subject above) makes a recommendation of Fair Exchange Ratio of *One (1) equity share of The Sandur Manganese & Iron Ores Limited of Rs.10 each fully paid up for every Seventy-Two (72) equity shares of Star Metalics and Power Private Limited of Rs.10 each fully paid up* based on the valuation arrived in the following manner.

Valuation Approach	SMIORE		SMPPL	
	Value per share	Weight	Value per share	Weight
Asset Approach	-	-	17	1
Income Approach	-	-	-	-
Market Approach	1219.53	1	-	-
Relative value per share	1219.53		17	

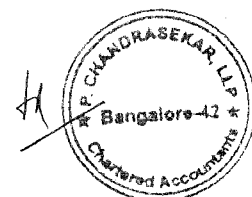
As desired, please find enlisted below in brief, reasons for not adopting certain approaches for arriving at the valuation of the Transferor and Transferee Company:

Reasons for Non-adoption of Methodology of Valuation

I. Transferor Company

I. Income Approach:

SMPPL's future earning's capacity is constrained with the limitation that SMPPL's earnings, which at present is comprised of fixed lease rentals from SMIORE, in terms of 3-years lease agreement is due to expire on 31 January 2019. It is sought to complete the amalgamation within the said timeline enabling SMIORE to commence with setting up a 1 Million Tonnes Per Annum Integrated Steel Pant.



Bangalore * Chennai

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SMPPPL's operations has resulted in loss since inception (except in the financial year 2014-15) which has resulted in an accumulated loss of ₹2625.23 lakh (as on 31 March 2017).

2. Market Approach:

Equity shares of SMPPPL are not listed on any exchange and are closely held.

Conclusion:

In view of the above, asset approach has been adopted for the Transferor Company.

II. Transferee Company

1. Asset Approach:

More Scientific Market Price Method is being followed.

Also, in terms of SEBI Circular CFD/DIL3/CIR/2017/21 dated 10 March 2017, if pursuant to the scheme allotment of shares is proposed to be made to a selected group of shareholders or to the shareholders of unlisted companies, the issuance of shares under schemes shall follow the pricing provisions of Chapter VII of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

2. Income Approach:


More Scientific Market Price Method is being followed.

Also, in terms of SEBI Circular CFD/DIL3/CIR/2017/21 dated 10 March 2017, if pursuant to the scheme allotment of shares is proposed to be made to a selected group of shareholders or to the shareholders of unlisted companies, the issuance of shares under schemes shall follow the pricing provisions of Chapter VII of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

Conclusion:

In view of the above, Market approach has been adopted for the Transferee Company.

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S. Rajagopalan
Partner
M.No.25349



Place: Bangalore

Date: 17 October 2018