

SSPA & CO.
Chartered Accountants

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STRICTLY PRIVATE & CONFIDENTIAL

August 14, 2014

The Board of Directors
Indokem Limited
Khatau House, Plot No 410 & 411,
Mogul Lane, Mahim,
Mumbai – 400 016

The Board of Directors
Indokem Exports Limited
Khatau House, Plot No 410/411,
Mogul Lane, Mahim,
Mumbai – 400 016

The Board of Directors
Khatau Capacitors Private Limited
Khatau House, Plot No 410/41,
Mogul Lane, Mahim,
Mumbai – 400 016

Re: Recommendation of Fair exchange ratio for proposed amalgamation of Indokem Exports Limited and Khatau Capacitors Private Limited into Indokem Limited

Dear Sirs,

As requested by the Management of Indokem Limited, Khatau Capacitors Private Limited and Indokem Exports Limited, (hereinafter collectively referred to as the "Management"), we have undertaken the valuation exercise of equity shares of Khatau Capacitors Private Limited (hereinafter referred to as "Khatau Capacitors") and Indokem Exports Limited (hereinafter referred to as "Indokem Exports") to recommend a fair share exchange ratio for the proposed amalgamation of Khatau Capacitors and Indokem Exports (hereinafter collectively referred to as the "Companies") into Indokem Limited (hereinafter referred to as "Indokem").

1. PURPOSE OF VALUATION

- 1.1 We have been informed that the Management are considering a proposal for the amalgamation of Khatau Capacitors and Indokem Exports into Indokem (hereinafter



referred to as "amalgamation") through a Scheme of Amalgamation and Arrangement (the "Scheme") pursuant to the provisions of Sections 391 to 394 read with Sections 100 to 103 and other applicable provisions of the Companies Act, 1956 and Companies Act, 2013. Subject to necessary approvals, Khatau Capacitors and Indokem Exports would be amalgamated with Indokem with effect from Appointed Date of April 01, 2014.

- 1.2 We have been informed by the Management that Indokem intends to discharge the consideration for amalgamation through issue of 8% Non-Cumulative Redeemable Preference Shares (hereinafter referred to as "NCRPS") of INR 10 each to Equity Shareholders of Khatau Capacitors and Indokem Exports. In view of this, there is no need to carry out valuation of equity shares of Indokem. Considering this, we have carried out a valuation of the equity shares of the Companies with a view to recommend a fair exchange ratio of NCRPS of Indokem to the Equity Shareholders of the Companies in the event of amalgamation for the consideration of the Board of Directors of the Companies and Indokem.
- 1.3 In this connection, SSPA & Co., Chartered Accountants (SSPA) has been appointed by the Management to carry out the valuation of equity shares of the Companies to recommend fair share exchange ratio.

2. BACKGROUND

2.1 INDOKEM LIMITED

- 2.1.1 Indokem was incorporated on December 22nd 1964, under the Companies Act, 1956. The Registered Office is situated at Khatau House, Plot No. 410 & 411, Megul Lane, Mahim (West), Mumbai - 400 016.
- 2.1.2 Indokem is engaged in the business of processing and trading of textile dyes and chemicals which are used in the textile industry. The equity shares of Indokem are listed on BSE Limited. Indokem holds ~16.67% of the equity capital of Indokem Exports.



2.2 KHATAU CAPACITORS PRIVATE LIMITED

2.2.1 Khatau Capacitors was incorporated on June 06, 1991 under the Companies Act, 1956. The Registered Office is situated at Khatau House, Plot No. 410/411, Mogul Lane, Mahim (West), Mumbai- 400 016.

2.2.2 Khatau Capacitors is engaged in the business of manufacturing and dealing in electrical capacitors. Khatau Capacitors holds ~50% of the equity share of Indokem Exports and ~3.93% in Indokem.

2.3 INDOKEM EXPORTS LIMITED

2.3.1 Indokem Exports was incorporated on May 09, 1991 under the Companies Act, 1956. The Registered Office is situated at Khatau House, Plot No. 410/411, Mogul Lane, Mahim (West), Mumbai- 400 016.

2.3.2 Indokem Exports is engaged in the business of manufacturing and dealing in textile dyes and chemicals.

3. EXCLUSIONS AND LIMITATIONS

- 3.1 Our report is subject to the scope limitations detailed hereinafter. As such the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein and in the context of the purpose for which it is made.
- 3.2 Valuation 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 judgment. There is, therefore, no indisputable single value. While SSPA & Co has provided an assessment of the value based on the information available, application of certain formulae and within the scope and constraints of our engagement, others may place a different value to the same.
- 3.3 In the course of the valuation, we were provided with both written and verbal information. We assume no responsibility for any errors in the above information furnished by the Companies and consequential impact on the present exercise.
- 3.4 Our work does not constitute an audit or certification of the historical financial statements including the working results of the Companies referred to in this report.



Accordingly, we are unable to and do not express an opinion on the fairness or accuracy of any financial information referred to in this report. Valuation analysis and results are specific to the purpose of valuation and the valuation date mentioned in the report is as per agreed terms of our engagement. It may not be valid for any other purpose or as at any other date. Also, it may not be valid if done on behalf of any other entity.

- 3.5 A valuation of this nature involves consideration of various factors including those impacted by prevailing market trends in general and industry trends in particular. This report is issued on the understanding that the management of the Companies have drawn our attention to all the matters, which they are aware of concerning the financial position of the Companies and any other matter, which may have an impact on our opinion, on the fair value of the shares of the Companies including any significant changes that have taken place or are likely to take place in the financial position of the Companies, subsequent to the Appointed Date for the proposed amalgamation. We have no responsibility to update this report for events and circumstances occurring after the date of this report.
- 3.6 No investigation on the Companies' claim to title of assets has been made for the purpose of this valuation and their claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature.
- 3.7 Any person/party intending to provide finance/invest in the shares/business of the Companies shall do so after seeking their own professional advice and after carrying out their own due diligence procedures to ensure that they are making an informed decision.
- 3.8 Our report is not, nor should it be construed as our opining or certifying the compliance of the proposed amalgamation with the provisions of any law including companies, taxation and capital market related laws or as regards any legal implications or issues arising from such proposed amalgamation.
- 3.9 This Report is prepared only in connection with the proposed amalgamation exclusively for the use of the Companies and for submission to any regulatory/statutory authority as may be required under any law. The Report should



not be copied or reproduced without obtaining our prior written approval for any purpose other than the purpose for which it is prepared.

- 3.10 SSPA & Co., nor its partners, managers, employees makes any representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the information, based on which the valuation is carried out. All such parties expressly disclaim any and all liability for, or based on or relating to any such information contained in the valuation.

4. SOURCES OF INFORMATION

For the purpose of the valuation exercise, we have relied upon the following sources of information provided by the Management:

- (a) Audited Financial Statements of Indokem for the financial year ended March 31, 2014.
- (b) Management Certified Financial Statements of Khatau Capacitors and Indokem Exports for the financial year ended March 31, 2014.
- (c) Draft Scheme of Amalgamation and Arrangement.
- (d) Other relevant details regarding the Companies such as their history, their promoters, past and present activities, existing shareholding pattern and other relevant information and data including information in the public domain.
- (e) Such other information and explanations as we required and which have been provided by the Management.

5. VALUATION APPROACH

5.1 Generally for the purpose of amalgamation, following valuation approaches can be considered, viz,

- (a) the "underlying asset" approach,
- (b) the "income" approach; and
- (c) the "market" approach

5.2 Since shares of the Companies are not listed on any stock exchanges, therefore "market" approach is not applicable for the valuation of Companies.



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- 5.3 Also, as on the appointed date, the Companies do not have any substantial business activity, therefore we have thought fit not to use "income" approach for the present valuation exercise.
- 5.4 Considering the above, we have thought fit to determine the values using the "underlying asset" approach for the Companies.

6. VALUATION OF SHARES UNDER UNDERLYING ASSET APPROACH

- 6.1 In case of "underlying asset" approach, the value is determined by dividing the net assets of the company by the number of shares. The "underlying asset" approach represents the value with reference to the historical cost of the assets owned by the Company and attached liabilities as at the valuation date.
- 6.2 In arriving at the Net Asset Value, appropriate adjustments have been made for appreciation/diminution in value of investments, after considering the tax impact. The appreciation/diminution in value of investments is worked out based on underlying net assets/transaction values after considering the appreciation in value of surplus assets, if any.
- 6.3 The underlying net assets value as arrived above is divided by the number of equity shares to arrive at the value per equity share.

7. RECOMMENDATION OF FAIR EXCHANGE RATIO

- 7.1 The share exchange ratio has been arrived on the basis of various qualitative factors relevant to the Companies and the business dynamics, having regard to information base, management representations and perceptions, key underlying assumptions and limitations.
- 7.2 As shares of the Companies are not listed on any stock exchange, we have also applied illiquidity discount to arrive at their fair value.
- 7.3 In the ultimate analysis, valuation will have to involve the exercise of judicious discretion and judgment taking into account 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.



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7.4 In the light of the above and on consideration of all the relevant factors and circumstances as discussed and outlined hereinabove earlier in this report, in our opinion, a fair share exchange ratio is:

97 (Ninety Seven) 8% Non-Cumulative Redeemable Preference Share of Indokem of INR 10 each fully paid up for every 25 (Twenty Five) Equity share of Indokem Exports of INR 10 each fully paid up

349 (Three Hundred Forty Nine) 8% Non-Cumulative Redeemable Preference Share of Indokem of INR 10 each fully paid up for every 2 (Two) Equity share of Khatau Capacitor of INR 10 each fully paid up

Thank you,
Yours faithfully,

SSPA & Co



SSPA & CO.
Chartered Accountants
Firm registration number: 128851W

Place: Mumbai

CERTIFIED TRUE-COPY

FOR INDOKEM LIMITED

[Signature]
Chairman & Managing Director

**Proposed Amalgamation of Indokem Exports Limited ('Indokem Exports') and
Khatau Capacitors Private Limited ('Khatau Capacitors') into
Indokem Limited ('Indokem')**

Computation of Fair Value per share and Share Exchange Ratio

Method of Valuation	Indokem Exports		Khatau Capacitors	
	Value per Share (INR)	Weights	Value per Share (INR)	Weights
Net Assets Value	45.62	100%	2,054.63	100%
Composite Value per Share	45.62		2,054.63	
Less: Illiquidity Discount @ 15%	(6.84)		(308.19)	
Fair Value per Share	38.78		1,746.43	
Par Value of Preference Shares	10.00		10.00	
Share Exchange Ratio (Rounded off)	3.88		174.50	
	Annexure-1		Annexure-2	

Ratio:

97 (Ninety Seven) 8% Non-Cumulative Redeemable Preference Shares of Indokem Limited of INR 10 each fully paid up for every 25 (Twenty Five) equity shares of Indokem Exports of INR 10 each fully paid up.

349 (Three Hundred Forty Nine) 8% Non-Cumulative Redeemable Preference Shares of Indokem Limited of INR 10 each fully paid up for every 2 (Two) equity shares of Khatau Capacitors of INR 10 each fully paid up.




FOR INDOKEM LIMITED
 Chairman & Managing Director



Annexure - 1

INDOKEM EXPORTS LIMITED
VALUATION FOR AMALGAMATION

Net Assets Value Method	
	(INR Crores)
Particulars	Amount
Fixed Assets (Net)	0.28
Investments	43.16
Net Current Assets	68.33
Net Assets Value	111.77
<u>Add/(Less):</u>	
Appreciation in value of Investments	3.22
Adjusted Net Assets Value	114.99
Nos. of Equity Shares	2,52,030
Value Per Share (Face Value INR 10) (INR)	45.62



Annexure - 2

**KHATAU CAPACITORS PRIVATE LIMITED
VALUATION FOR AMALGAMATION**

Net Assets Value Method	
	(INR Crores)
Particulars	Amount
Fixed Assets (Net)	0.03
Investments	199.61
Net Current Assets	195.53
Deferred Tax Assets	6.00
Loan Funds	(397.78)
Net Assets Value	3.40
Add/(Less):	
Appreciation in value of Investments	202.06
Adjusted Net Assets Value	205.46
Nos. of Equity Shares	10,000
Value Per Share (Face Value INR 10) (INR)	2,054.63

