



SHAH KANTILAL & CO.
CHARTERED ACCOUNTANTS

20th August 2013

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To
The Board of Directors
HEERA ISPAT LIMITED
Ahmedabad

The Board of Directors
HEAVY METAL And TUBES LIMITED
Ahmedabad

Gentlemen,

Req: Opinion on "Valuation of Shares and Exchange Ratio"

As requested, we have carried out the valuation of Shares of **HEERA ISPAT LTD. (HIL)** and **HEAVY METAL AND TUBES LTD. (HMTL)** with a view to arrive at the ratio of exchange in the event of amalgamation of HMTL with HIL.

For this purpose, we have considered the Audited Financial Statements for the last three years and have obtained such other information and explanations as we have considered necessary for the purpose in making valuation of shares of both the Companies.

Based on the Audited Accounts, "CCI Guidelines" for valuation of equity shares of companies and information and explanations obtained, in our opinion, Fair Ratio of Exchange of Shares would be 4 (Four) Equity Shares of Rs.10/- EACH of HIL for 1 (One) Equity Shares of Rs.10/- Each of HMTL.

We enclose herewith the detailed Report on Valuation and Exchange Ratio of Shares of both the Companies.

Thanking you,

Yours sincerely,

For **SHAH KANTILAL & CO.**
CHARTERED ACCOUNTANTS
FRN 112260W


CA. JAYESH K. SHAH
PARTNER
M. NO. 047976



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REPORT ON VALUATION AND EXCHANGE RATIO OF SHARES OF HIL & HMTL

I. INTRODUCTION:

M/s Heera Ispat Ltd. (HIL) was incorporated on 05/08/1992. The main objects as per the Clause III A of the Memorandum of Association of the Company are as under:-

Main Object

To carry on in India and/or elsewhere the business of manufacturing, producing, processing of stainless steel and alloy steel wire drawing, and to act as agent, broker, importer, exporter, job worker, contractor, consultant, stockiest, distributor or otherwise to deal in all specifications, descriptions, applications, size, dimension, sections, forms, and uses of wires and wire products for use in building materials, engineering Articles, household goods such as threaded bars, screws, bolts, nuts, hooks, dowed pins, springs, cut wire, braided hoses, flexible connectors, spokes, nails, wire forms, wire ropes, wire mesh, scrubbers, kitchen baskets made out of all types of ferrous and non ferrous materials.

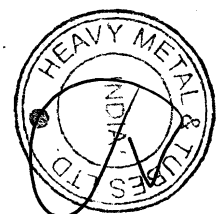
Other Object

Clause 34 of the Memorandum of Association of the company permits the company to amalgamate with other company.

The registered office of the company at present is situated at at 206, Ashwarth Complex, opp. Hotel Fortune Landmark, Usmanpura, Ahmedabad-380013, Gujarat is a company registered under the Companies Act, 1956. The shares of the company are listed on BSE Ltd. The company at present has no major business opportunity on hand.



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M/s Heavy Metal And Tubes Ltd. (HMTL) was incorporated as Private Limited Company on 17/10/1990. The main objects as per the Clause III A of the Memorandum of Association of the Company are as under:-

Main Object

To carry on in India and/or elsewhere the business of manufacturing, producing, processing, assembling, repacking and to act as agent, broker, importer, exporter, job worker, contractor, engineer, consultant, stockiest, distributor or otherwise to deal in all specifications, descriptions, applications, size, dimension, sections and forms of ferrous and non-ferrous metal wires with or without coating and/or plating.

Other Object

Clause 32 of the Memorandum of Association of the company permits the company to amalgamate with other company.

The registered office of the company at present is situated at Heavy Metal House, 1, Vijay Vihar Society, Nr. Vijay Cross Road, Navrangpura, Ahmedabad-380009, Gujarat. The company is unlisted closely held limited company. The company is engaged in the manufacturing of Steel Tubes & Pipes and having market in India and outside India.

II. PURPOSE AND SUBJECT MATTER OF VALUATION:

We have been informed by the management of both the company that it is proposed to amalgamate HMTL with HIL w.e.f. 01/04/2013. Both the Companies have under their respective Memorandum and Articles of Association the power to amalgamate. HMTL is to be amalgamated with HIL. Petitions are being prepared and to be filed with the High Court of Gujarat at Ahmedabad. Also a Scheme of Amalgamation of HMTL with HIL is being prepared. Consideration is being given in the form of shares of the Company. In the process of Amalgamation it is necessary to determine the value of the Shares and the Ratio of Shares to be exchanged under proposed amalgamation to be sanctioned by the High Court of Gujarat.



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III. DATE ON WHICH THE RATIO OF SHARES IS TO BE FIXED:

The relevant Valuation and the exchange ratio are to be decided as on 1st April 2013 being the appointed date.

IV. BASIS OF VALUATION:

The basic assumption for our valuation is the fundamental assumption of the "Going Concern Concept". Our valuation exercise is based on:

- a) The Audited Final Accounts for the year ended on 31st March 2011, 2012 & 2013 in the case of HMTL and 30TH June 2011, 2012 & 31st March 2013 in the case of HIL, Annexure "A".
- b) An information about the market price quoted on stock exchange in case of HIL.
- c) "CCI guidelines" for valuation of equity shares of companies (HLL formula),
- d) Discussions with the management of the company on various issues.

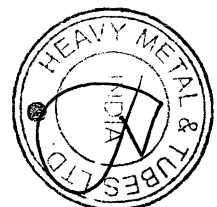
V. PURPOSE OF AMALGAMATION

It is proposed to amalgamate HMTL with HIL from 1st April 2013 as the same is beneficial for both the Companies. Following are some of the advantages expected to be achieved due to the amalgamation of HEAVY METAL And TUBES LIMITED (HMTL) with HEERA ISPAT LIMITED (HIL).

HIL is a listed public company. The shares of HIL are listed on the BSE. At present HIL is not operating any activity. HMTL is unlisted closely held public company. HMTL is engaged in the business of manufacturing of Steel Tubes & Pipes. The Board of Directors of both the company thought it fit to amalgamate them with a view to get the benefits of the listing, synergy and increase in tradability & value of shares.

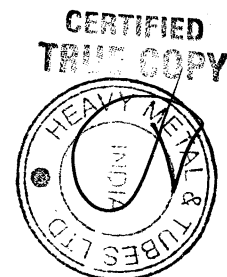


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As per the management perception, some of the benefits of Amalgamation are inter alia as under:-

1. The post amalgamated listed company has better strength in terms of business synergy, liquidity, transferability of shares in terms of value.
2. Amalgamated company can raise money from the public market to help finance an M&A transaction.
3. An M & A transaction may enhance shareholders value in two ways — value creation and value capture.
4. Value creation is a long term phenomenon which results from the synergy generated from a transaction. Value creation may be achieved by way of functional skill or management skill transfers. Value capture is a onetime phenomenon, wherein the shareholders of the acquiring company gain the value of the existing shareholders of the acquired company.
5. The amalgamated company would have a larger capital base and strong asset base which would give it a competitive edge. This would be to the mutual advantage of both the Transferor and Transferee Company.
6. Typically a merged entity would enjoy higher debt capacity because benefits of combination of two or more firms provide greater stability to the earnings level. This is an important consideration for the lenders. Moreover, a higher debt capacity if utilized, would mean greater tax advantage for the merged firm leading to higher value of the firm.
7. Amalgamation offers tremendous opportunities for companies to grow & add value to the shareholders. It unlocks the true potential of the company. It is a Strategy for Growth & Expansion. It also helps in Cleaning up & creates Synergy of Resources.
8. Amalgamated company with larger capital base can borrow more funds from the market at lower rate of interest. Thus, in short, amalgamation helps in achieving financial economics.



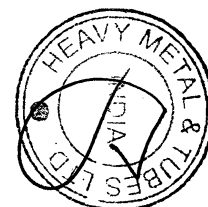
9. Generally, business operations of an amalgamated company grow faster than individual companies. This growth is possible due to the following main reasons:
1. An amalgamated company can face competition more effectively.
 2. It can share past experiences as and when required.
 3. It can also take maximum advantage of joint expansion plans.
10. An amalgamated company improves its managerial effectiveness by replacing ineffective management team with an effective and efficient management team. Mandating managers to share their past work-experiences in the best interest of the company as and when required.
11. Amalgamation contributes in curing sick industrial units. This can be achieved by: Amalgamating loss-bearing companies with the profit-making companies. Thus, amalgamation helps to alleviate the problem of industrial sickness.
12. Amalgamation helps to increase the market share of the amalgamated-company. This can be achieved by increasing the market presence (establishments) of the amalgamated company.
13. An increase in market share is one of the plausible **benefits of mergers and acquisitions**. In case a financially strong company acquires a relatively distressed one, the resultant organization can experience a substantial increase in market share. The new firm is usually more cost-efficient and competitive as compared to its financially weak parent organization.

VI. **PRINCIPLES / METHODS OF VALUATION**

There are three constantly adopted methods of valuation of business carried out by unlisted & listed companies. These are

- a. "Net Asset Value Method" (NAV),
- b. "Market Value for Listed Companies", (MV)
- c. "Profit Earning Capacity Value" (PECV)

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As it is evident from the facts, that HIL is a listed non functioning company and HMTL is an unlisted company in existence for many years and have been earning profits. The basic issue is that of fixing the Ratio for the Exchange of Shares. Each method proceeds on different fundamental assumptions which have greater or lesser relevance to a given situation. Thus the method to be adopted for a particular valuation depends upon the circumstances of each case. We have adopted different methods, which in our opinion are relevant and have given appropriate weightage to ascertain the fair value of shares.

- (a) "Net Asset Value Method" (NAV),: Value per shares as per Book Value Method as on 01.04.2013, on the basis of Audited Balance Sheet as on 31.03.2013 for both the companies are as under:

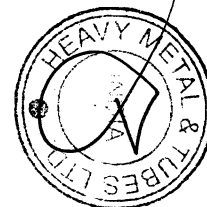
HIL	Rs. Lacs
Share Capital	579.74
Reserve & Surplus	0
Total	579.74
Less: Profit & Loss A/c	170.96
Net Assets	408.78
Value per one share = Net Assets Divided by No. of Shares (Shares are fully paid up as at 30/06/2013)	
	= 408.78 / 5882800
	= Rs. 6.95
Total Numbers of shares Post Proposed Reduction = 4706240	
Value per one share = Net Assets Divided by No. of Shares Post proposed reduction)	
	= 408.78 / 4706240
	= Rs. 8.69 per share

Note: Re-organization of share capital of HIL

The issued, subscribed and paid up capital of HIL shall stand reduced from Rs.5,88,28,000 divided into 5882800 Equity Shares of Rs. 10/- each to Rs.4,70,62,400 divided into 5882800 Equity Shares of Rs. 8/- each by cancelling the balance share capital i.e. Rs.2 on each outstanding share. The said 5882800 Equity Shares pursuant to such reduction of capital shall be consolidated into 4706240 Equity Shares of Rs. 10/- each. Accordingly, the shareholders of the Transferee Company whose names appear on the Register of Members of the Transferee Company on the Record Date shall be issued 8 new equity shares of the Company for every 10 equity shares held by them in the Transferee Company on the Record Date.



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HMTL	Rs. Lacs
Share Capital	1121.01
Reserve & Surplus	5473.38
Total	6594.39
Less: Misc. Exps.	0
Net Assets	6594.39
Value per one share = Net Assets Divided by No. of Shares	
	= 6594.39/ 11210100
	= Rs. 58.83 per share

(b) **“Market Value for Listed Companies “**, (MV): The other method of valuation of shares is Market Based Approach.

HIL

Because of the continues losses suffered by the company and highly depreciated value of the company’s equity shares no significant dealings have taken place in respect of the company’s equity shares. With the respect that the shareholders of the Company have presently no worthwhile means of liquidating their holdings.

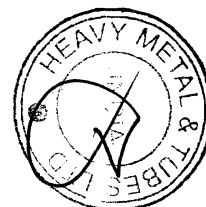
Where the company is listed, it is noted that there has been abysmally low value of trading in the company’s equity. As such no meaningful inferences in respect of the market value of equity would be derived. The average of market value of highs and lows in the last six months of inactive trading in the stock is not a proper indicator & hence it has been ignored. Applying prudence in the instant case, we have decided not to consider the Market value of equity for the purposes of valuation.

HMTL

The Average market price parameter is not applicable for this Company since this is the unlisted company.

(c) **“Profit Earning Capacity Value” (PECV):** The Value per shares as per **“Profit Earning Capacity Value” (PECV) Method** as on 01.04.2013, on the basis of Audited Balance Sheet as on 31.03.2013 for both the companies are as under:

As, HIL is not functioning and has incurred losses, the valuation as per PECV method is not proper for it



HEAVY METAL AND TUBES LTD. (TRANSFEROR COMPANY)			
A.	MAINTAINABLE PROFIT		(Rs. Lacs)
(1)	(2)	(3)	(4)= (2)x(3)
YEAR	Profit PAT	Weightage	Profit
2010-11	540.25	1.00	540.25
2011-12	408.32	2.00	816.64
2012-13	64.77	3.00	194.31
Total			1551.20
1.	Weighted Average Profit		Rs. Lacs 258.53
2.	PECV at 15% capitalization rate		Rs. Lacs 1723.53
3.	No. of Shares		11210100
4.	Value per Share		Rs. 15.37

Note:

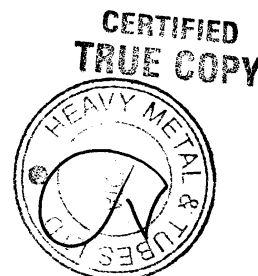
The capitalization rate of industry average of manufacturing companies is taken @15% as per the CCI guidelines for valuation of equity shares of companies. (HLL formula)

VII. THE VALUATION

As, HIL is not functioning and has incurred losses, the value as per PECV method is not proper for it. Moreover, the shares are not traded regularly, the market price for valuation is also not proper for it. **Therefore, the Book value per share as per NAV method of Rs. 8.69/- per share of HIL is considered to be the fair value for exchange ratio.**

The shares of HMTL are not listed; hence market value method is not proper for it. The value per share of HMTL as per NAV method is Rs. 58.83 and as per PECV method is Rs. 15.37. **Therefore, the average of the above two method, which is Rs. 37.10 is considered to be the fair value for exchange ratio.**

Thus, the Share Exchange ratio for the purpose of amalgamation of Heavy Metal And Tubes Limited with Heera Ispat Limited on the basis of above valuation methodologies is 4.27 : 1; i.e. 4.27 equity share post proposed reduction of HIL be exchanged for 1 Fully paid up shares of Rs. 10/- each of HMTL.



But, Considering the above facts and information available and the advantages available to amalgamated Company and taking into consideration that the transferee company is exchange traded and the shareholders of both the company will be benefited from the fact that they will get liquidity for their investment as their shares will be listed on one of the premier stock exchanges of the country. Hence, **the fair Share Exchange ratio for the purpose of amalgamation of Heavy Metal And Tubes Limited with Heera Ispat Limited on the basis of above valuation methodologies is 4 : 1; i.e. 4 equity share post proposed reduction of HIL be exchanged for 1 Fully paid up shares of Rs. 10/- each of HMTL**

PLACE: Ahmedabad
DATE: 20th August, 2013

FOR SHAH KANTILAL & CO.
CHARTERED ACCOUNTANTS


CA. JAYESH K. SHAH
PARTNER
M. NO. 047976



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