



Chartered Capital And Investment Ltd.

Annexure 5

Monday, September 2, 2013

To

The Board of Directors
HEERA ISPAT LIMITED
Ahmedabad

The Board of Directors
HEAVY METAL AND TUBES LIMITED
Ahmedabad

Dear Sirs,

FAIRNESS OPINION CERTIFICATE ON VALUATION OF SHARE EXCHANGE
RATIO FOR THE AMALGAMATION OF HEAVY METAL AND TUBES LTD
WITH HEERA ISPAT LTD

With reference to our offer letter dated Monday, August 26, 2013, which has been duly accepted by you, whereby we have been appointed as an Independent Merchant Banker for furnishing a 'Fairness Opinion' on the valuation carried out by the Valuer, M/s. Shah Kantilal & Co., Chartered Accountants, vide their report dated August 20, 2013, in terms of Clause 24 of Listing Agreement.

We have been given to understand that the proposed share exchange ratio upon amalgamation of **Heavy Metal And Tubes Ltd** (the '**Transferor Company**') with **Heera Ispat Ltd** (the '**Transferee Company**') has been recommended at **4 : 1** as on the appointed date which is April 1, 2013; i.e. shareholders of **Heavy Metal And Tubes Ltd** will receive Four (4) share of face value of Rs. 10/- each of **Heera Ispat Ltd** for every One (1) share of face value of Rs. 10/- each, held by them in **Heavy Metal And Tubes Ltd** on Record Date.

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We have examined the methodologies used and corresponding share valuation to arrive at share exchange ratio based on the Valuation Report furnished by M/s. Shah Kantilal & Co., Chartered Accountants of 4 : 1 as proposed under the scheme of Amalgamation.

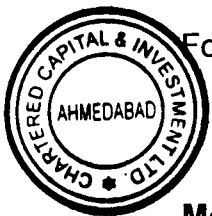
We enclose herewith our Report on the Fairness of the Valuation carried out by M/s. Shah Kantilal & Co., Chartered Accountants.

We hereby give our consent to present and disclose the Fairness Opinion in the general meetings of the shareholders of Heavy Metal And Tubes Ltd and Heera Ispat Ltd pursuant to Clause 24 of Listing Agreement and to the Registrar of Companies, Gujarat, Ahmedabad, BSE Ltd ('**BSE**'), and the High Court of Judicature of Gujarat at Ahmedabad and any other regulatory / competent authorities in connection with the proposed purpose outlined above.

We highly appreciate the co-operation and support received by us from your representatives during preparation of the said Report.

Thanking you,

Yours faithfully,



For Chartered Capital And Investment Limited

Mohib N. Khericha

Mohib N Khericha

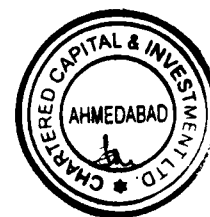
Managing Director



FAIRNESS OPINION ON VALUATION OF SHARES FOR THE
AMALGAMATION OF HEAVY METAL AND TUBES LTD WITH HEERA ISPAT
LTD

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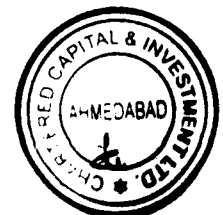
FAIRNESS OF VALUATION OF SHARES

I. TERMS OF REFERENCE

- 1.1 **Heera Ispat Ltd (HIL)** is listed on BSE and **Heavy Metal And Tubes Ltd (HMTL)** is an unlisted company.
- 1.2 The Boards of Directors of Heavy Metal And Tubes Ltd and Heera Ispat Ltd are proposing to amalgamate Heavy Metal And Tubes Ltd with Heera Ispat Ltd under a scheme of merger/amalgamation under sections 391 to 394 of the Companies Act, 1956 and the appointed date has been fixed at April 1, 2013. The Share Exchange Ratio for the scheme of amalgamation has been decided based on the Valuation Report prepared by M/s. Shah Kantilal & Co., Chartered Accountants.
- 1.3 For the purpose of ascertaining the fairness of the valuation used by Heavy Metal And Tubes Ltd and Heera Ispat Ltd, have jointly appointed, CCIL, for furnishing a **Fairness Opinion** on the valuation carried by the aforesaid Valuer.

II. INFORMATION RECEIVED AND RELIED UPON BY US FOR THE FAIRNESS OPINION

- 2.1 We, CCIL, have prepared the **Fairness Opinion** on the basis of the following information provided to us:
- (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.
- (b) Valuation Report dt. 20.08.2013 of M/s. Shah Kantilal & Co., Chartered Accountants.





- 2.2 Our work does not constitute an audit or certification of the historical financial statements of Heavy Metal And Tubes Ltd and Heera Ispat Ltd, including their working results referred to in this Report. Accordingly, we are unable to and do not express any opinion on the accuracy of any financial information referred to in this Report. We assume no responsibility for any errors in the information/clarifications submitted by the Managements and their impact on the present exercise. **This Fairness Opinion has been furnished on the methodologies and resultant share valuation used by the Valuer.**
- 2.3 This Report is issued on the understanding that Heavy Metal And Tubes Ltd and Heera Ispat Ltd have drawn our attention to all the relevant matters, of which they were aware of, concerning the respective company's financial position and businesses, which may have an impact on this Report.
- 2.4 Our report is also subject to the limitations referred to in the Valuation report.

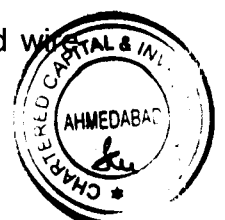
III. BRIEF BACKGROUND OF COMPANIES UNDER REFERENCE

Heera Ispat Ltd

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 wires





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 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.

Heavy Metal And Tubes Ltd

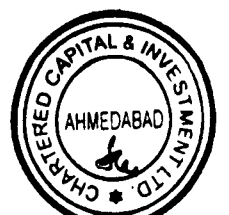
M/s Heavy Metal And Tubes Ltd. (HMTL) was incorporated as Private Limited Company on 17/10/1990. The main objects as per the Clause III A of the Memorandum of Association of the Company are as under:-

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.

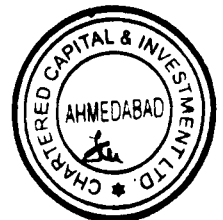
IV. PURPOSE OF AMALGAMATION

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).

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.

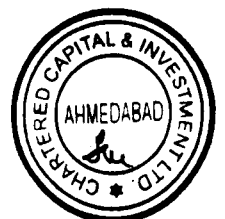
As per the management perception, some of the benefits of Amalgamation are inter alia as under:-

- The post amalgamated listed company has better strength in terms of business synergy, liquidity, transferability of shares in terms of value.
- Due to the high liquidity of publicly traded stock, public firms may more easily use their shares as M&A currency.
- Amalgamated company can raise money from the public market to help finance an M&A transaction.
- An M&A transaction may enhance shareholders value in two ways — value creation and value capture.





- 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.
- 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.
- 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.
- 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.
- 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.
- Generally, business operations of an amalgamated company grow faster than individual companies. This growth is possible due to the following main reasons:
 - An amalgamated company can face competition more effectively.
 - It can share past experiences as and when required.
 - It can also take maximum advantage of joint expansion plans.





- 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.
- 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.
- 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.

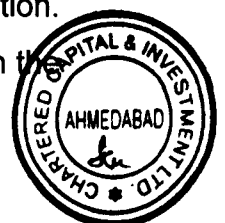
V. COMMENTS ON THE BASIS OF VALUATION AND VALUATION METHODOLOGY

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)

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





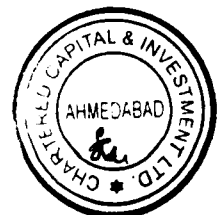
circumstances of each case. The valuer adopted different methods, which in their opinion are relevant and has given appropriate weightage to ascertain the fair value of shares.

- (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-organisation 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.





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

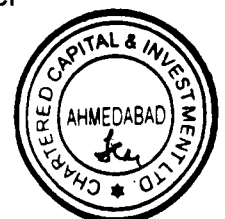
Where the company is listed, it is noted that there has been abysmally low value of trading in the company's equity. As such no meaningful inferences in respect of the market value of equity would be derived. The average of market value of highs and lows in the last six months of inactive trading in 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)

VI. FAIR VALUE PER EQUITY SHARE OF HEAVY METAL AND TUBES LTD AND HEERA ISPAT LTD.

As, HIL is not functioning and has incurred losses, the value per 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. **And 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.**

VII. COMMENTS ON VALUATION OF AMALGAMATION OF HEAVY METAL AND TUBES LTD WITH HEERA ISPAT LTD BY M/S. SHAH KANTILAL & CO., CHARTERED ACCOUNTANTS

- (A) **Share Exchange Ratio** – Based on the aforesaid valuation methodologies, M/s. Shah Kantilal & Co., Chartered Accountants has arrived at a Share Exchange Ratio of **4 : 1** i.e. shareholders of Heavy Metal And Tubes Ltd will receive Four (4) share of face value of Rs. 10/- each of Heera Ispat Ltd for every One (1) share of face value of Rs. 10/- each, held by them in Heavy Metal And Tubes Ltd on **Record Date**.
- (B) We are of the opinion that M/s. Shah Kantilal & Co., Chartered Accountants has used the appropriate valuation methodologies for valuation of shares of Heera Ispat Ltd and Heavy Metal And Tubes Ltd and the corresponding Share Exchange Ratio, which could be considered fair for both the companies.





VIII. OPINION ON VALUATION REPORT

The share exchange ratio has been arrived on the basis of a relative valuation of the shares of the Companies based on the various methodologies explained herein earlier and various qualitative factors relevant to each company and the business dynamics and growth potentials of the businesses of the companies, having regard to information base, management representations and perceptions, key underlying assumptions and limitations.

Based on the information, material, data made available to us, including the Valuation Report and working thereto, to best of our knowledge and belief, the methodologies used and corresponding share valuation to arrive Share Exchange Ratio suggested by M/s. Shah Kantilal & Co., Chartered Accountants proposed under the scheme of amalgamation are Fair.

