



August 21, 2018

MCAPL: MUM: 2018-19: 0116

To,
Board of Directors
Shahlon Silk Industries Limited
 91, G.I.D.C. Khatodara,
 Behind Sub-Jail, Ring Road,
 Suart-395 002, Gujarat

Sub : Fairness Opinion Certificate on the Valuation of shares in the matter of proposed merger of Fair Deal Filaments Limited ("FFL") and Shahlon Silk Industries Limited ("SSIL")

Dear Sir,

This has reference to the request made by the management of Shahlon Silk Industries Limited ("SSIL"). The Board of Directors of SSIL has appointed us on August 11, 2018 and has requested us to issue Fairness Opinion Certificate in connection with the valuation exercise being carried out by M/s. CNK & Associates LLP, Chartered Accountants (hereinafter referred to as "the Valuer") for recommending Equity Share Exchange Ratio for the Proposed Merger of Fair Deal Filaments Limited and Shahlon Silk Industries Limited i.e. April 01, 2018.

1. PURPOSE OF VALUATION

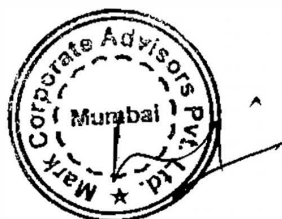
- 1.1 The Board of Directors of both the Companies have considered proposal for the Merger of FFL with SSIL.
- 1.2 In this regard, M/s. CNK & Associates LLP, Chartered Accountants were appointed to carry out the valuation with a view to recommend an exchange ratio of shares in the event of Merger of FFL with SSIL and determination of Equity shares to be issued by SSIL to the Shareholders of FFL.
- 1.3 The information contained herein and our certificate is confidential. It is intended only for the sole use of captioned purpose including for the purpose of obtaining requisite approvals as per SEBI (LODR) Regulations, 2015.

2. SOURCE OF INFORMATION

For the purpose of the valuation, we have relied upon the following source of information provided by the management of the Companies:

- i) Memorandum and Articles of Association;
- ii) Audited Annual Accounts For FY 2017-18;
- iii) Certified Un-audited financials as at June 30, 2018 of FFL;
- iv) Projections for the Financial Year 2018-19 to 2020-21;
- v) Copy of Valuation Report issued by CNK & Associates LLP, Chartered Accountants dated August 17, 2018;
- vi) Draft Scheme of Arrangement.

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MARK CORPORATE ADVISORS PVT. LTD.

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3. EXCLUSIONS AND LIMITATIONS

- 3.1 Conclusions reached by us are dependent on the information provided to us being complete & accurate in all material respects. Our scope of work does not enable us to accept responsibility for the accuracy and completeness of the information provided to us. The scope of our assignment did not involve us performing audit tests for the purpose of expressing an opinion on the fairness or accuracy of any financial or analytical information used during the course of our work. We have not performed any audit, review or examinations of any of the historical or prospective information used and, therefore, do not express any opinion with regard to the same. In addition, we do not take any responsibility for any changes in the information used for any reason, which may occur subsequent to the date of our certificate.
- 3.2 This certificate is prepared with a limited purpose/scope as identified/stated earlier and will be confidential being for use only to whom it is issued. It must not be copied, disclosed or circulated in any correspondence or discussions with any person, except to whom it is issued and to those who are involved in this transaction and for various approvals for this transaction.

4. VALUATION METHODOLOGY ADOPTED BY THE VALUER

In arriving at the exchange ratio of the equity shares for the merger of the FFL with SSIL we have determined the values independently but on a relative basis. We have considered the methods relevant and applicable, which included:

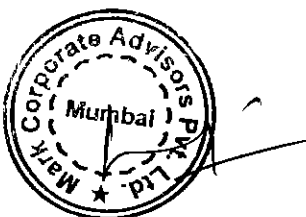
- 1) Net Assets Value Method
- 2) EBITDA Valuation Method
- 3) Market Value Method (Fair Deal Filaments Limited)

1) Net Assets Value Method

The asset based valuation technique is based on the value of the underlying net assets of the company on a Book Value basis. This method is also known as the Net Asset Valuation ("NAV") methodology. Considering the nature of business of the company and other facts and based on the discussions with the management, including the fact that the two companies are closely held companies and as informed, owned by the same group and upon the proposed restructuring, none of the stake holders are likely to be adversely affected, the asset based valuation technique seems to be appropriate for valuing the shares of the two companies. In other words, net assets (operating business assets) have been valued using book value as reflected in the Audited Accounts as at March 31, 2018.

2) EBITDA Valuation Method

"EBITDA Multiplier" method is generally used for the Enterprise, which has lower profit in initial year EBITDA stands for "Earnings before Interest, Tax, Depreciation and Amortization". It seems to use when business required substantial investment in initial year and with long gestation period. Key Factor in this method is cash generated by the enterprise prior to all discretionary expenditures. The EBITDA is the measures of cash flows from operations that can be used to support debt payment least in the short term. It provides better estimation of "Optimal value" when capital expenditure earns unwise or substandard returns. Earnings before interest, tax, depreciation, and amortization (EBITDA) are a measure of Enterprise profits and information in the Enterprise's financial statements. A multiple of the EBITDA is used to value an Enterprise, especially in relation to its competitors, where the multiple to be used can be obtained from dividing the market value of similar business by their EBITDA and using the mean or median result as the multiple for valuing a business. EBITDA takes out of the equation those items that might obscure how the Enterprise is really performing.



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- The tax charge can be effected by the tax strategy of the Enterprise, the availability of tax losses brought forward from previous years, or the amount of tax allowances available for capital investment.
- Depreciation and amortization are dependent on the extent of capital expenditure by the Enterprise and may also depend on subjective estimates of the useful life of the plant and equipment.
- The amount of the interest charge depends on the Enterprise's choice of how to finance its operations.
- By taking out these items the EBITDA gives a figure that is closer to the actual cash generated by the operations of the business.
- We have considered the Average EBITDA from the FY 2016-2017 to FY 2019-2020 to arrive at the Fair Value of Shares of SSIL and FFL.

3) Market Value Method

Market Value of Shares quoted on Stock Exchanges-The Market Value of a listed stock carries significant weightage in the analysis of the Equity Value of the Company. The Price at which the shares of a listed company are quoted on a recognized Stock Exchange, is an indicator of the value of the Company. This method is effective in various situations as market force collectively determine the price quoted on the stock exchanges. The market value is an outcome of various factors like quality and integrity of the Management, present and prospective competition, yield on comparable securities, market sentiment, etc. Since the shares of Transferor Company is involved in the Scheme is listed on stock exchange, we have considered the same while on the other hand the Transferee Company is unlisted company so Market Value Method is not considered. For the Transferor Company we have considered the Average Market Price from May 21, 2018 to August 10, 2018.

5. CONCLUSION

- 5.1. We have reviewed the methodology as mentioned above adopted by the Valuer for arriving at the fair valuation of the equity shares of Companies and also reviewed the working and underlining assumptions adopted to arrive at the values under each of the above approaches, for the purposes of recommending a ratio of entitlement/exchange.
- 5.2. On the basis of the foregoing points, we are of the opinion that the valuation made by M/s. CNK & Associates LLP, Chartered Accountants is fair & reasonable for the proposed Share Exchange Ratio of 1 Equity share of Shahlon Silk Industries Limited for every 1 Equity Share of Fair Deal Filaments Limited.

Thanking you,

For Mark Corporate Advisors Private Limited



Rajendra Kanoongo
Jt. Managing Director

Place: Mumbai