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Gandhi

CHARTERED ACCOUNTANTS

(61)

December 20, 2017

To,
The Board of Directors,
Stylam Industries Limited,
SCO - 14 Sector 7-C,
Madhya Marg,
Chandigarh - 160 019.

Subject: Recommendation of fair equity share exchange ratio for the proposed scheme of merger of Golden Chem-Tech Limited with Stylam Industries Limited

ASSIGNMENT

Stylam Industries Limited has appointed Gandhi & Associates LLP to recommend a fair exchange ratio of equity shares for the proposed merger of Golden Chem-Tech Limited with Stylam Industries Limited (hereinafter referred to as 'Golden Chem-Tech' and 'Stylam' respectively).

DISCLAIMER AND LIMITATIONS

This share exchange ratio report is prepared by the Gandhi & Associates LLP, Chartered Accountants under an engagement letter from Stylam on the basis of information, documents, papers and explanations given by the management, officers and staff of Golden Chem-Tech and Stylam.

In preparing the share exchange ratio report, Gandhi & Associates LLP has relied upon and assumed without independent verification, the truthfulness, accuracy and completeness of the information and the financial data (which shall include, but not be limited to historical financial information, financial projections or forward-looking statements that have a bearing



Page 1 of 8

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For Stylam Industries Ltd.

Mani Gupta
Director

on financial information) certified by the management of Golden Chem-Tech and Stylam. Gandhi & Associates LLP has therefore relied upon all specific information as received and declines any responsibility should the results presented be affected by the lack of completeness or truthfulness of such information. Actual performance, results of operations of facts may differ from management certified projected financial information or forward-looking statements.

Our work does not constitute an audit or certification or due diligence of the past financials of the Golden Chem-Tech and Stylam and we have relied upon the information provided to us to by them as regard such working the results.

Publicly available information deemed relevant for the purpose of the analysis contained in the share exchange ratio report has also been used.

Gandhi & Associates LLP has not provided any accounting, tax, or legal advice to Golden Chem-Tech and Stylam. This share exchange ratio report should not be construed as investment advice or any form of recommendation either for making or divesting investment in the said companies. The said companies are assumed to be in compliance with all laws applicable to them.

All the workings for the valuation are made to the nearest two decimal points.

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SOURCES OF INFORMATION

We have relied on the following information made available to us by the management of the Golden Chem-Tech and Stylam for the purpose of this report:

1. Sallent features of the proposed scheme of merger;
2. Audited financial statements of Stylam and Golden Chem-Tech for the year ended on 31st March 2015, 31st March 2016 & 31st March 2017;
3. Brief history, present activities, business profile, shareholding pattern;
4. Memorandum and Articles of Association;

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Chartered Accountants



For Stylam Industries Ltd.

Maint Gupta
Director

- 5. Financial projections and forward looking statements along with assumptions provided by the management;
- 6. Management's perception of commercial aspects of the business operations;
- 7. Discussions with the management regarding present and future operations;
- 8. Analysis, review and inquiries as were considered necessary;
- 9. Other relevant information and documents for carrying out this assignment.

BRIEF BACKGROUND OF THE COMPANIES

STYLAM INDUSTRIES LIMITED

- a) Stylam Industries Limited was incorporated on 28th October, 1991 with Registrar of Companies Chandigarh vide registration number L20211CH1991PLC011732.
- b) The register office of Stylam is situated at SCO - 14 Sector 7-C, Madhya Marg, Chandigarh 160019.
- c) The main object of Stylam, inter alia, as contained in its Memorandum of Association are inter alia, to manufacture, buy, sell, import, export, and carry on the business of Laminates of all kinds, decorative and industrial boards, sheets, Plywood, sunmica, wood, panels, veneered and unveneered adhesives, straw products, flush doors and of furniture and all sorts of Timber, glass & other articles, things and ingredients which can conveniently be used further for manufacture of or in connection with all such articles and things as aforesaid.
- d) The equity shares of Stylam are listed on Bombay Stock Exchange Limited with script code 526951.
- e) The present capital structure of Stylam is:

Quantity	INR 10 Shares	Rs. in Crores
Authorised:		
85,50,000	Equity Shares of Rs. 10 each	8.55
Issued, Subscribed, Paid-up:		
81,66,200	Equity Shares of Rs. 10 each	8.17

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GOLDEN CHEM-TECH LIMITED

- a) Golden Chem-Tech Limited was incorporated on 4th October, 1995 with Registrar of Companies Chandigarh vide registration number U24200CH1995PLC017101.
- b) The register office of Golden Chem-Tech is situated at SCD-14 Sector 7-C, Madhya Marg, Chandigarh 160019.
- c) The main object of Golden Chem-Tech, inter alia, as contained in its Memorandum of Association are inter alia to carry on the business of chemical manufacturers oil and colour men and chemical engineers and to carry on the business of trading, manufacturing, import, export, distributors of building material i.e. acrylic solid surface and any other ancillary activity related to this.
- d) The present capital structure of Golden Chem-Tech is:

No. of Shares	Type of Shares	Rs. in Crores
Authorised:		
11,54,000	Equity Shares of Rs. 10 each	1.15
Issued, Subscribed, Paid-Up:		
11,42,050	Equity Shares of Rs. 10 each	1.14

VALUATION METHODOLOGY

The proposed merger contemplates the merger pursuant to a scheme of merger arriving at the fair equity share exchange ratio for the proposed merger of Golden Chem-Tech with Stylam would require determining the fair values of each company. These values are to be determined independently but on relative basis and without considering the effect of the proposed merger.

There are several methods of valuation, which are recognized as sound methods for arriving at the fair market value of the equity shares of companies. The application of any particular method of valuation depends on the purpose for which the valuation is done. Several factors will have to be factored in before one arrives at the decision of using one or more methods of valuation. Although different values may exist for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. Our choice of methodology of valuation has been arrived at using usual and conventional methodologies.

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For Stylam Industries Ltd.

Manjit Gupta
Director

adopted for transactions of a similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignments of similar nature.

NET ASSETS VALUATION METHOD (NAV)

- The asset based valuation technique is based on the value of the underlying net assets of the business.
- Variations of this method use depreciated replacement cost of fixed assets or net realizable value (Break-up or asset-by-asset sale basis).
- This method is usually selected when tangible assets dominate earnings capability or when the business has to be closed down. This method, however, does not capture earning potential of the company.

DISCOUNTED CASH FLOWS METHOD (DCF)

- Under this method, the value of equity share of the company is arrived at by analyzing the historical trends and the future financial projections of the company. This method takes into the account the future potential earnings of the company and profitability of the company, it discounts the future earning potential of the company and arrives at the possible market price of the company on the present day.
- The Discount Free Cash Flow method is one of the most rigorous approaches to valuation of business. In this method, the projected free cash flows from business operations are discounted at the weighted average cost of capital and sum of such discounted free cash flows is value of business.
- Use of Discounted Free Cash Flow method involves determining the following:
 - Estimated future cash flows;
 - Number of years cash flows used in the study;
 - Appropriate discount rate to be applied to cash flows;
 - The continuing value i.e. the cumulative value of free cash flows beyond the explicit forecast period;
 - Value of debt, if any.
- The value of company is obtained by discounting expected cash flows to the company i.e. the residual cash flows after meeting all operating expenses, reinvestment needs and



For Stylam Industries Ltd.

Maini Gupta
Director

taxes, but prior to any payment to either debt or equity holders, at the weighted average cost of capital, which is the cost of the different components of financing used by the company, weighted by their market value proportions.

- The weighted average cost of capital is the discount factor used to arrive at the value of company. Discounting free cash flow to the company at the cost of capital will yield the value of operating assets of the company. To arrive at the company value of non-operating assets will have to be added. Non-operating assets include cash, marketable securities and holding in other companies.
- Terminal value is the present value at a future point in time all future cash flows when we expect stable growth rate forever. To arrive at the terminal value, the Perpetually Growth Model is used which accounts for the value of free cash flow in the first year beyond the projection horizon (N+1) is used. This value is divided by the discount rate minus the assumed perpetuity growth. $T_0 = FCF_{N+1} / (k-g)$. T_0 is the value of future cash flows at a future point in time which is immediately prior to N+1 or at the end of period N, which is the final year in the projection period, k being discount rate and g being the perpetual growth rate. This equation is perpetuity, uses a geometric series to determine the value of a series of growing future cash flows.

MARKET PRICE METHOD

- As per SEBI Circular CFD/DILS/CIR/2017/21 dated March 10, 2017. The issuance of shares under schemes in case of allotment 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 the SEBI (Issue of Capital Disclosure Requirements) Regulations, 2009. (hereinafter referred to as "the ICDR Regulations").
- As per Regulation 71A of the ICDR Regulations, frequently traded shares mean shares in which the traded turnover on any stock exchange during the twelve calendar months preceding the relevant date is at least ten percent of the total number of shares of such class of shares of the issuer the shares.
- The pricing formula provided in Regulation 76 of the ICDR Regulations, which is reproduced hereunder:-

Gandhi & Associates LLP
Chartered Accountants



Page 6 of 8

For Stylam Industries Ltd.

Maul Gupta
Director

If the equity shares of issuer have been listed on a recognized stock exchange for a period of twenty-six weeks or more as on the relevant date, the equity share shall be allotted at a price not less than higher of the following:

- a) The average of the weekly high & low of the volume weighted average price of the related equity shares quoted on the recognized stock exchange during the twenty-six weeks preceding the relevant date; or,
- b) The average of the weekly high & low of the volume weighted average prices of the related equity shares quoted on a recognized stock exchange during the last two weeks preceding the relevant date.

VALUATION OF EQUITY SHARE OF STYLAM INDUSTRIES LIMITED

- As the shares of Stylam are listed on a recognized exchange we have considered Market Price Method to determine the fair value of equity shares.
- Accordingly, value per share of Stylam Industries Limited is Rs. 742 per share.
(Source: Market prices of last 26 weeks from 20th December 2017 taken from the website of BSE Limited i.e. www.bseindia.com)

VALUATION OF EQUITY SHARE OF GOLDEN CHEM-TECH LIMITED

- Since Golden Chem-Tech is not listed, the Market Price Method is not applicable. In our opinion, both the other methods viz. Discounted Cash Flow method and Net Asset Valuation method will be applicable in determining the value of Golden Chem-Tech.
- To arrive at a fair value, equal weights have been assigned to the values under both the methods.
- Accordingly, value per share of Golden Chem-Tech Limited is Rs. 200 per share.

BASIS OF FAIR EQUITY SHARE EXCHANGE RATIO

- The fair exchange ratio of equity shares has been arrived at on the basis of fair equity valuation of the companies and is 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 Golden Chem-Tech and Stylam, having regard to information base, key underlying assumptions and limitations.

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For Stylam Industries Ltd.
Maint Gupta
Director

• Though different values have been arrived at under each of the above methodologies, for the purpose of recommending a fair exchange ratio of equity shares, it is necessary to arrive at a single value for the shares. It is however important to note that in doing so, we are not attempting to arrive at the absolute equity values of the Golden Chem-Tech and Stylam but at their relative values to facilitate the determination of a fair equity share exchange ratio. For the purpose, it is necessary to give appropriate weights to the values arrived at under each methodology. We have given weights to the values arrived at under different methodologies, based on the evaluation and judgement of the business of the companies, in order to arrive at the relative values of the equity shares.

CONCLUSION

In light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined herein above, we recommend the following fair equity share exchange ratio of equity shares for the proposed merger:

"100 (One Hundred) equity shares of Stylam of Rs. 10 each fully paid for every 371 (Three Hundred & Seventy-one) equity shares of Golden Chem-Tech of Rs. 10 each fully paid up."

For GANDHI & ASSOCIATES LLP
Chartered Accountants
(FRN: 102965W/W100192)

J. Shah



Jigar Shah
Partner
Membership No. 140186

For Stylam Industries Ltd.

Maiti Gupta
Director