



ARIHANT Capital Markets Ltd.

Fairness Opinion

SCHEME OF AMALGAMATION

AMONG

**GOKAK SUGARS LIMITED
(Transferor Company)**

AND

**SHREE RENUKA SUGARS LIMITED
(Transferee Company)**

**Prepared by:
ARIHANT Capital Markets Limited
Merchant Banking Division
Mumbai**

October 28, 2021

The information contained herein is of a confidential nature and is intended for the exclusive use of the persons for whom it was prepared.

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1. Background

- i. **Gokak Sugars Limited** (hereinafter referred to as "GSL" or the "Transferor Company"), was incorporated as a private limited company, under the Companies Act, 1956 on 22nd February, 2000 in the name of Gokak Sugars Private Limited, in the State of Karnataka. The name of the Transferor Company was changed from Gokak Sugars Private Limited to Gokak Sugars Limited on its conversion in to public limited company and a fresh certificate of incorporation consequent upon change of name was issued on 8th July 2003. The Registered office of the Transferor Company is situated at S. No. 238 and 263, Kolvi Village, Taluka Gokak, District Belgaum, PIN - 591344, Karnataka.
- ii. **Shree Renuka Sugars Limited** (hereinafter referred to as "SRSL" or the "Transferee Company"), was incorporated as a public limited company under the Companies Act, 1956 on 25th October, 1995 in the State of Karnataka. The Certificate of Commencement of Business of the Transferee Company was received on 5th January, 1996. The Registered Office of the Transferee Company, on the date of incorporation was situated at B. C. 105, Havelock Road, Camp, Belgaum 590001. The Registered Office of the Transferee Company was shifted to 2nd & 3rd Floor, Kanakashree Arcade, CTS No. 10634, JNMC Road, Nehru Nagar, Belagavi - 590010 with effect from 1st August 2019 and the present Registered Office of Transferee Company continues to be situated at 2nd & 3rd Floor, Kanakashree Arcade, CTS No. 10634, JNMC Road, Nehru Nagar, Belagavi - 590010.

The Transferee Company and the Transferor Company are related parties as the the Transferee Company is holding 93.64% of the issued equity share capital of the Transferor Company.

Management of Transferor and Transferee Company have decided to enter into a scheme of amalgamation which provides for:

- a) The amalgamation of the Transferor Company with and into the Transferee Company pursuant to Section 230 read with Section 232 and other relevant provisions of the Companies Act 2013 read with the Rules therein.
- b) Issuance of 12 Equity Shares of Re.1/- each in the Transferee Company credited as fully paid up for every 100 Equity Share of Rs.10/- each fully paid up held by such member in the Transferor, except to the Transferee Company, as per the terms set out under this Scheme.
- c) Dissolution without winding up of the Transferor Company ("Scheme")

The Appointed Date of the Scheme is April 01, 2021, as envisaged in the draft Scheme.



The Scheme envisages the amalgamation of GSL into SRSL, resulting in consolidation of the business in one entity and strengthening the position of the merged entity, by enabling it to harness and optimize the synergies of the two companies.

The Board of directors of the Transferor Company and the Transferee Company anticipate, *interalia*, the following benefits pursuant to the amalgamation of the Transferor Company into the Transferee Company:

- a) Enable Transferee Company to use the resources of Transferor Company and generate synergy in operations;
- b) Reduction of overheads and other expenses, facilitate administrative convenience and ensure optimum utilization of available services and resources.
- c) Will result in bolstering the capital base and Balance Sheet of the Transferee Company.
- d) Rationalizing the Group Structure by reducing the number of companies for better financial and compliance management leading lowering of finance and compliance costs of the Group

Towards this purpose, the Board of Directors of Transferee Company have provided us with a draft copy of the proposed scheme of Amalgamation of Transferor and Transferee company, which is scheduled to be considered and approved at Transferee company's forthcoming Board meeting. The proposed Scheme will also be placed at the meeting of the Board of Directors of the Transferor Company for their approval.

2. Reference & Context

As the equity shares of Transferee are listed on BSE Limited ("BSE") and National Stock Exchange of India Limited ("NSE"), it is bound by the SEBI Listing Obligations and Disclosure Requirements) Regulations 2015 ("SEBI LODR Regulations") and the provisions thereof as amended from time to time.

We, Arihant Capital Markets Ltd., have been appointed to issue a fairness opinion in terms of SEBI circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017, SEBI circular No. CFD/DIL3/CIR/2017/26 dated March 23, 2017 read with Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2020/249 dated December 22, 2020 on valuation of assets done by independent Valuers for the Transferor Companies and Transferee Company pursuant to the proposed Scheme of Amalgamation

We are a SEBI registered merchant banker and are not associates of Transferors and Transferee.

We have applied ourselves towards formation and expression of the opinion on the valuation of equity shares of Transferors and Transferee company done by Insolvency and Bankruptcy Board of India ("IBBI") registered Valuer Mr. Jayesh Parasmal Shah ("Valuers") in relation to this proposed Scheme of Amalgamation.



This Fairness Opinion is issued pursuant to our appointment as Merchant Bankers by Transferee Company for issuing the Fairness Opinion.

3. Proposed Transaction

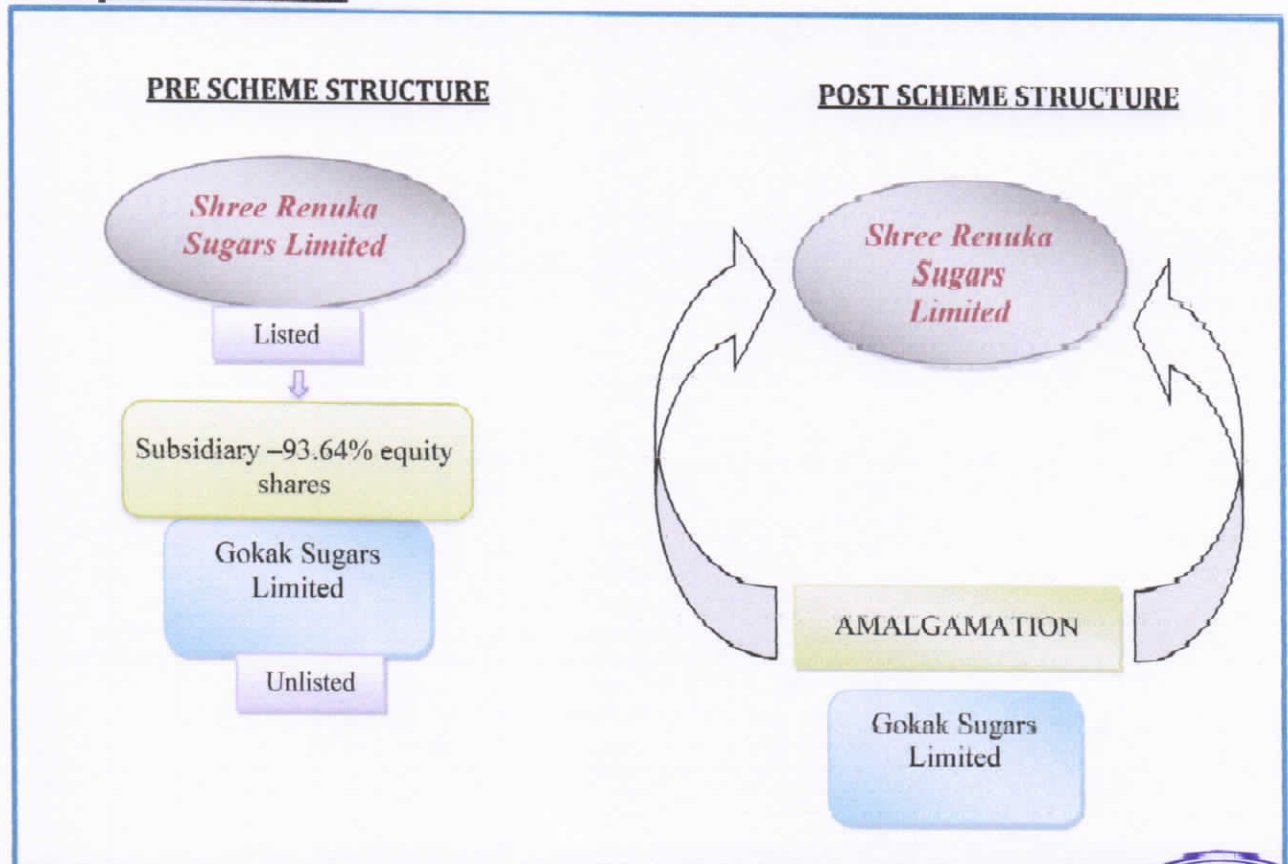
GSL will amalgamate with SRSL through the proposed Scheme of Amalgamation. Below mentioned structure is as per the proposed Scheme provided to us by SRSL.

Transferor Company is a subsidiary of the Transferee Company and the Transferee Company holds 32,937,140 equity shares in the Transferor Company, constituting [93.64%] of the issued equity share capital of the Company. On amalgamation of the Transferor Company with the Transferee Company, no shares (whether equity or preference shares) of the Transferee shall be issued or allotted in respect of the equity shares held by the Transferee Company in the Transferor Company.

In consideration of the amalgamation, the Transferee Company shall, issue and allot 12 equity shares of Re. 1 each of the Transferee Company for every 100 equity shares of Rs 10 each held by shareholders other than Transferee company in the Transferor Company.

Pursuant to the allotment of equity shares under the scheme, there will be change in the current equity shareholding pattern of Transferee company.

Proposed Transaction



4. Engagement Context

The management of Transferee Company has requested ARIHANT Capital Markets Limited ("ARIHANT" or "We / Us / Our") to express an opinion about fairness of the valuation done by the Valuers from a financial point of view in accordance with SEBI master circular No. SEBI/HO/CFD/DIL1/CIR/P/2020/249 dated December 22, 2020 issued by SEBI read with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 to the Shareholders transferee company (the "Fairness Opinion").

This Fairness Opinion is expressed solely with reference to requirements under aforementioned purpose; and scope of this assignment is restricted to opine about fairness of valuation already done by the Valuers and recommendation of share exchange ratio in relation to the proposed Scheme.

This opinion does not in any way constitute a recommendation by ARIHANT to any party including Shareholders as to whether such shareholders should approve or reject the proposed transaction, in cases where voting by public shareholders is warranted. We urge you to read this Fairness Opinion carefully and entirely.

We have been engaged by SRSL to issue a Fairness Opinion and will receive a fixed fee for rendering this Fairness Opinion, which is independent of the happening or otherwise of the proposed transaction.

This Fairness Opinion may be reproduced in the explanatory statement sent to the shareholders of SRSL along with the notice of general meeting / postal ballot form, conducted to get approval for the proposed transaction, so long as the form of reproduction of the Fairness Opinion in such report and any description of or reference in such report to ARIHANT, is in a form acceptable to us.

5. Basis of forming Opinion

5.1 Documents and Information Considered

For the purpose of providing our opinion, we have reviewed:

1. Certain publicly available business and financial information relating to Transferor and Transferee Company.
2. Audited standalone financials of SRSL as on 31st March 2021 and Financials for GSL for the financial year ending March 31, 2021.
3. Certified draft of the proposed Scheme of Amalgamation to be approved by the Boards of Directors of the respective Company.
4. Undertakings / Management Representations issued by SRSL and GSL in relation to valuation of respective Companies.
5. Copy of the valuation report of the Valuers Jayesh Parasmal Shah (IBBI Registration no IBBI/RV/07/2020/13066) dated October 27, 2021 on the valuation of Transferor and Transferee Company and recommending Fair Share Exchange ratio for the proposed scheme.



6. Performed such other reviews and analyses as ARIHANT, in its absolute discretion, deemed appropriate.

5.2 Assumptions and Limiting Conditions

ARIHANT has been engaged to provide standard services for the issuance of the Fairness Opinion and therefore have not performed any due diligence or audit of the information provided to us, nor have we made any independent valuation or appraisal of the assets or liabilities. SRSL has provided us with the copy of valuation report done by the Valuers and have asked us to peruse and opine on the said report. SRSL has confirmed that as the issuance of Fairness Opinion is in relation to proposed amalgamation, the said valuers' report may also be reproduced / quoted by us.

ARIHANT has assumed and relied upon the truth, accuracy and completeness of the information, data and financial terms provided to us by SRSL, GSL or their authorized representatives or used by us, and has assumed that the same are factually correct and does not assume or accept any liability or responsibility for any independent verification or checking of such information or any independent valuation or appraisal of any of the assets, operations or liabilities of Transferor Company and Transferee Company.

In preparing this opinion, ARIHANT has received specific confirmation from management of transferee company and transferor Company that all the information the Company has provided to ARIHANT in relation to the engagement of ARIHANT is correct and complete and no information has been withheld that could have influenced the purport of this Fairness Opinion.

This opinion exclusively focuses on the fairness, from a valuation point of view, of the shares / assets done by the Valuers and does not address any other issues such as the underlying business decision to recommend the transaction or its commercial merits, which are matters solely for the Boards of Directors of Transferee Company and Transferor Company to address and further to be confirmed by the shareholders of both the Company, as may be required.

It is specifically noted that the Valuer is an independent Valuer registered with IBBI for asset class 'Securities and Financial Assets' and as such possesses requisite qualification, competence and experience to conduct the valuation and is solely responsible for selection of valuation methods and calculations thereunder and the valuer's competence has been fully relied upon. We are required to assess the fairness of the valuation and the resulting swap ratio / share exchange ratio.

The Opinion assumes that the Company comply fully with relevant laws and regulations applicable in all its area of operations unless otherwise stated, and the Company are managed in a competent and responsible manner. Further, except as specifically stated to the contrary, this fairness opinion has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigation and other contingent liabilities that are not recorded in the financial statements of the Company.



ARIHANT's formation of **fairness opinion** is based on the Valuation Report, information supplied by Transferee Company and Transferor Company, representations and confirmations of its management on various issues and we have relied upon them as such without any independent verification and as such we do not hold ourselves liable if our opinion becomes flawed as a result of any shortcomings in such information, representations and confirmations given by Transferee Company and Transferor Company.

In rendering this opinion, ARIHANT has not provided legal, regulatory, tax, accounting or actuarial advice and accordingly ARIHANT does not assume any responsibility or liability in respect thereof. Furthermore, ARIHANT has assumed that the proposed transaction will be consummated on the terms and conditions as set out in the proposed Scheme of Amalgamation, without any material changes to, or waiver of, its terms or conditions.

6. Valuation Approaches and their Review

6.1. Overview

The formation of a **fairness opinion** is generally a complex process involving careful consideration and review of valuation methods, associated financial and other analyses performed by the Valuers. ARIHANT has made a **qualitative assessment** of the appropriateness of the method and subsequent application.

6.2 Valuation

ARIHANT has reviewed the method of valuation adopted by the Valuers. The valuation analysis is focused on Valuer's assessment of GSL's and SRSL's equity shares. We note that the Valuer is enrolled with PVAI Registered Valuer's Organization, which has recommended to follow the International Valuation Standards ("IVS") for undertaking valuation and accordingly, he has considered the International Valuation Standards issued by International Valuation Standards Council ("IVSC") in carrying out the valuation exercise

In the Present case, the Transferor Company is an **unlisted public Company**. For the valuation of Transferor Company, three broadly accepted valuation methodologies i.e. a) Cost Approach b) Income Approach and c) Market Approach have been considered by the Valuer.

- a) **Cost Approach** - The asset based valuation technique is based on the value of the underlying net assets of the business either on book value or **realizable value basis** or replacement value basis. This valuation is **mainly used** in case where the firm is to be liquidated i.e. it does not meet the "Going Concern" criteria. The valuer has also noted that the **Cost approach does not reflect** the value of intangibles of the company and the future growth potential of the business and accordingly this approach is not used to value the Transferor Company.



- b) **Income Approach:** - We note that the Valuer has not used Discounted Cash Flow (DCF) under this approach due to sensitivity of the future financial projections of Transferor Company as it is subsidiary of listed Transferee Company.
- c) **Market Approach :-** Based on the market data available, Valuers have identified few peer Companies and accordingly appropriate multiples were computed. The multiples so computed have been applied after giving a suitable discount to account for marketability and size.

Suitable weights have been assigned to the values under different approaches derived by the Valuers.

The Scheme envisages issuance of 12 Equity Shares of Re.1/- each in the Transferee Company credited as fully paid up for every 100 Equity Share of Rs.10/- each fully paid up held by member in the Transferor except to the Transferee Company as per the terms set out under this Scheme.

The Scheme states that existing shareholding of Transferee Company in Transferor Company shall be cancelled and no shares will be issued to the extent of such holding.

In the Present case, the Transferee Company SRSL is a listed Company.

The equity shares of SRSL are traded on BSE and NSE. As per definition provided under Regulation 164 (5) of SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018 the shares of SRSL are frequently traded shares.

- i. Attention may also be drawn to Regulation 158 of ICDR Regulations (read with SEBI Circulars CFD/DIL3/CIR/2017/21 dated March 10, 2017 and CFD/DIL3/CIR/2017/26 dated March 23, 2017), which specifies that issue of equity shares to shareholders of an unlisted entity pursuant to a National Company Law Tribunal approved scheme shall conform with the pricing provisions of preferential issue specified under Regulation 164 of the said regulations. The Relevant Date for the Preferential Allotment is October 28, 2021 as prescribed under relevant SEBI circular. Further it may be noted that Regulation 164 specifies the minimum price for issue of shares on a preferential basis. The Pricing Formula provided in Regulations 164 (1) has been considered for arriving at the value per equity share of SRSL under the market price Method. The market price is considered as higher of following:
- (a) Average of the weekly high and low of the volume weighted average price during the 26 weeks preceding October 28, 2021; or
- (b) Average of weekly high and low of the volume weighted average price during the 2 weeks preceding October 28, 2021.



- ii. As the equity shares of the SRS� are frequently traded, considering the foregoing Market Price Method under the Market Approach has been considered for valuation of the SRS�.

6.3 Analysis of the Valuation

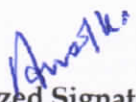
While forming our opinion, we performed certain procedures and made certain enquiries with Transferee company and Transferor Company. Some of the procedures / activities performed and the findings are mentioned below:

- Noted that the scheme involves amalgamation of Gokak Sugars Limited with and into Shree Renuka Sugars Limited and upon implementation will lead to dissolution without winding up of the Transferor Company and the shares held by SRS� in GSL shall be cancelled and extinguished.
- Noted that the appointed date for the proposed scheme of Amalgamation is April 01, 2021 and the valuation of GSL is carried out as at the date of approval of the revised Scheme by the Board of Directors of SRS� and GSL considering financial data which reflects normal business scenario.
- The valuation of GSL is based on the broadly accepted valuation methodologies and the approach seems reasonable.
- The Valuation of SRS� is done as per the prescribed valuation procedure under SEBI Regulations / circular and it seems reasonable.

7. Opinion

Based upon and subject to the foregoing, we are of the opinion on the date hereof, that the valuation including the Exchange ratio of 12 (Twelve) Equity shares of SRS� of Re. 1/- (Rupee One Only) each fully paid up for every 100 (Hundred) equity shares of GSL of Rs. 10/- (Rupees Ten Only) each fully paid up as recommended by the Valuers for the proposed Scheme of Amalgamation is fair.

For Arihant Capital Markets Limited
(Merchant Banking Division)


Authorized Signatory.
(SEBI REGN. No. INM 000011070)

