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FAIRNESS OPINION REPORT

On

the Scheme of Amalgamation

of

Star Ferro and Cement Limited

With

Star Cement Limited


MERCHANT BANKERS' REPORT

August 01, 2016



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For Star Ferro and Cement Limited


Company Secretary



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1. INTRODUCTION

Star Ferro and Cement Limited ("SFCL"/"the Transferor Company") is a company listed on the National Stock Exchange of India Limited and BSE Limited. SFCL holds 29,54,75,000 Equity Shares constituting 70.48% of the total Issued, Subscribed and Paid up Share Capital of Star Cement Limited ("SCL"/"the Transferee Company").

SFCL does not have any other significant business interest other than its investment in the cement business through its subsidiary i.e. SCL. The major asset of SFCL is its equity investment in SCL.

Star Cement Limited is one of the leading cement manufacturer in north-eastern India. SCL is engaged in manufacturing and marketing of cement under its 'Star Cement' brand. SCL has a total cement manufacturing capacity (including subsidiaries) of ~ 3.3 million tonnes per annum (mtpa) and clinker capacity of ~2.5 mtpa. The equity shares of SCL are not listed.

Although SFCL has investment in the cement business through its subsidiary i.e. SCL, the value of the interest in the cement business is however not adequately reflected in SFCL since such business is not held directly but through the Transferee Company. Both the Companies are under the same management and have interests in the same business. As such the business of the two companies can be combined conveniently and carried on in conjunction more advantageously and therefore no useful purpose is being served in continuing with two separate legal entities.

Accordingly, the management of SFCL and SCL, through a Scheme of Amalgamation ("Scheme") under the provision of section 391 to 394 of the Companies Act, 1956, intends to merge SFCL with SCL as on the appointed date of April 1, 2016 ("Appointed Date").

While SCL holds operating facilities and assets which cannot be transferred easily, SFCL does not have any such facilities or assets. In view, inter alia, of the aforesaid, operationally it is considered more convenient to amalgamate SFCL with SCL than vice versa.

The amalgamation will also result in the formation of a larger company having greater capacity to raise and access funds for growth and expansion of its business. The amalgamation will enable greater realisation of the potential of the cement business in the merged entity.

In consideration of the amalgamation, SCL will issue and allot to the shareholders of SFCL, Equity Shares credited as fully paid up in SCL. The existing Equity Shares of SCL held by SFCL shall stand cancelled as a consequence of the amalgamation. This will also enable the shareholders of SFCL to hold shares directly in the operating company i.e. SCL. The same will unlock shareholders value. The equity shares of SCL will be listed on the stock exchanges where shares of SFCL are listed.

The entitlement ratio for the amalgamation of SFCL with SCL has been recommended by Price Waterhouse & Co., LLP (the "Financial Advisor").

SFCL has appointed Microsec Capital Limited ("Microsec") as an Independent Merchant Banker to give their opinion on fairness of the entitlement ratio recommended by the Financial Advisor.



2. PURPOSE OF FAIRNESS OPINION

As per SEBI circular CIR/CFD/CMD/16/2015 dated November 30, 2015 in relation to schemes of arrangement by listed entities, the companies going through any arrangement/amalgamation/reconstruction etc. are required to obtain a "Fairness Opinion" from an Independent Merchant Banker.

3. LEGAL DISCLAIMER

SFCL has requested us to issue a Fairness Opinion Report on the Entitlement Ratio Report given by Price Waterhouse & Co LLP, on amalgamation of SFCL with SCL. In preparing this Fairness Opinion Report, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information provided to us.

In furnishing this Report, we reserve the right to amend or replace the Report at any time. Our views are necessarily based on economic, market, and other conditions currently in effect, and the information made available to us, as of the date hereof. It should be understood that subsequent developments may affect our views and that we do not have any obligation to update, revise, or reaffirm the views expressed in the Report. Nothing contained within the Report is or should be relied upon as a promise or representation as to the future.

The Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein.

Neither the report nor its contents may be referred to or quoted in any registration, statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties, other than in connection with the proposed amalgamation.

4. SOURCES OF INFORMATION RELIED UPON BY US FOR THE FAIRNESS OPINION

We have prepared this Fairness Opinion Report on the basis of the following information provided to us:

- Entitlement Ratio Report issued by Price Waterhouse & Co., LLP;
- Draft Scheme of Amalgamation;
- Financial statements of SFCL and SCL;
- Other data collated by us from publicly available sources.

We have also obtained necessary explanations and information, which we believed were relevant to the present exercise, from the executives and representatives of the companies.



5. BRIEF BACKGROUND OF THE COMPANIES UNDER REFERENCE

Star Ferro and Cement Limited ("SFCL") is a Company incorporated under the provisions of the Companies Act, 1956 and being a Company within the meaning of the Companies Act, 2013 having its registered office at Village: Lumshnong, Post Office: Khaliehriat, District: East Jaintia Hills, Meghalaya 793 210. The issued, subscribed and paid up share capital of SFCL is Rs. 22,21,72,990. The equity shares of SFCL are listed on the National Stock Exchange of India Limited and BSE Limited.

SFCL holds 29,54,75,000 Equity Shares constituting 70.48% of the total Issued, Subscribed and Paid up Share Capital of Star Cement Limited ("SCL"). Accordingly, SFCL is the holding company of SCL. SFCL does not have any other significant business interest other than its investment in the cement business through its subsidiary i.e. SCL.

Star Cement Limited is a Company incorporated under the provisions of the Companies Act, 1956 and being a Company within the meaning of the Companies Act, 2013 having its registered office at Village: Lumshnong, Post Office: Khaliehriat, District : East Jaintia Hills, Meghalaya 793 210. The issued, subscribed and paid up share capital of SCL is Rs. 41,92,13,920. The equity shares of SCL are not listed. SCL is a subsidiary of SFCL.

SCL is one of the leading cement manufacturer in north-eastern India. SCL is engaged in manufacturing and marketing of cement under its 'Star Cement' brand. SCL has a total cement manufacturing capacity (including subsidiaries) of ~ 3.3 million tonnes per annum (mtpa) and clinker capacity of ~2.5 mtpa. As at April 1, 2016, SCL has two wholly owned subsidiaries i.e. Megha Technical and Engineers Pvt. Ltd. (operating subsidiary) and NE Hills Hydro Ltd. (no operations). Also, SCL holds 87.49% stake in Star Cement Meghalaya Ltd and balance 12.51% through its subsidiary Megha Technical and Engineers Pvt. Ltd. (operating subsidiary) and 51% stake in Meghalaya Power Ltd. (operating subsidiary).

6. RATIONALE ADOPTED BY THE FINANCIAL ADVISOR FOR ASCERTAINING THE ENTITLEMENT RATIO

SFCL holds 29,54,75,000 Equity Shares constituting 70.48% of the total Issued, Subscribed and Paid up Share Capital of Star Cement Limited. SFCL does not have any other operations other than its investment in the cement business through its subsidiary i.e. SCL. The major asset of SFCL is its equity investment in SCL.

Considering the proposed amalgamation of SFCL with SCL, and given that the value of SFCL is driven entirely from the underlying value of its equity holding in SCL, an individual valuation of either SCL (including its subsidiaries) or SFCL has not been performed by the Financial Advisor. The Entitlement Ratio has been derived by the Financial Advisor based on the shareholding pattern of SFCL (holding company) and its ownership interest in SCL as at April 1, 2016.

As per the Scheme, the existing equity shares of SCL held by SFCL shall stand cancelled upon amalgamation, and in exchange of their shareholding in SFCL, the shareholders of SFCL shall be



issued and allotted fully paid up equity shares of SCL. The equity shares of SCL will be listed on the stock exchanges where shares of SFCL are listed. This will also enable the shareholders of SFCL to hold shares directly in the operating company i.e. SCL. The same will unlock shareholders value.

7. ENTITLEMENT RATIO

Based on the aforesaid, the Financial Advisor has arrived at the Entitlement Ratio of 1.33 : 1.00 i.e. the shareholders of Star Ferro and Cement Limited will receive 1.33 equity shares of Re.1/- each of Star Cement Limited credited as fully paid-up for every 1 equity share of Re.1/- each fully paid-up held by them in Star Ferro and Cement Limited.

8. OPINION ON ENTITLEMENT RATIO

Based on the information, material and data made available to us, including the Report of the Financial Advisor and the working thereto, in our opinion the Entitlement Ratio recommended by the Financial Advisor is fair and proper.

For Microsec Capital Limited



Manav Goenka
Vice President
Investment Banking

