

Price Waterhouse & Co LLP

Chartered Accountants

Strictly Private and Confidential

August 1, 2016

Board of Directors
Star Ferro and Cement Limited
Village: Lumshnong,
P.O. Khaliehriat, Distt.
East Jaintia Hills,
Meghalaya, India

Board of Directors
Star Cement Limited
Village: Lumshnong,
P.O. Khaliehriat, Distt.
East Jaintia Hills,
Meghalaya, India


Dear Sirs,

Subject: Determination of Share Exchange/ Entitlement Ratio

1 CONTEXT AND PURPOSE

- 1.1 We refer to our engagement letter dated July 25, 2016 and subsequent discussions regarding the provision of Financial Advisory Services to Star Ferro and Cement Limited ("Star Ferro") and Star Cement Limited ("SCL") (earlier known as Cement Manufacturing Company Limited ("CMCL")).
- 1.2 Star Ferro and Cement Limited is a company listed on the National Stock Exchange (NSE) and BSE Limited. We understand that as at March 31, 2016, Promoter and Promoter group held 66.64% equity stake in Star Ferro, while the balance 33.36% equity stake is held by Public. We further understand that as at March 31, 2016 Star Ferro held 70.48% equity stake in Star Cement Limited ("SCL") and the remaining 28.50% equity stake was held by the Promoter and Promoter group and 1.02% by Public.
- 1.3 We understand the management of Star Ferro and SCL ("Management"), through a Scheme of Amalgamation ("Scheme") pursuant to the provisions of section 391 to 394 of the Companies Act, 1956, intends to amalgamate Star Ferro with SCL (the "Transaction" or the "Restructuring") as on the appointed date of April 1, 2016 ("Appointed Date").
- 1.4 Further, we understand that pursuant to the amalgamation of Star Ferro with SCL, the existing equity shares of SCL held by Star Ferro shall stand cancelled and in exchange of their shareholding in Star Ferro, Promoter and Promoter group and Public shall be issued and allotted fully paid up equity shares of SCL. In terms of the Scheme and pursuant to SEBI circular dated 30th November, 2015, SCL will apply for listing of its equity shares on recognised stock exchange/s i.e., National Stock Exchange of India Limited and BSE Limited, where existing shares of Star Ferro are listed.
- 1.5 In the above context, we have been requested by the Board of Directors of Star Ferro and SCL to determine the Share Entitlement Ratio ("Share Exchange Ratio" or "Exchange Ratio"), for the envisaged Transaction. The Share Exchange Ratio in this context is defined as the ratio in which the equity shareholders of Star Ferro shall be entitled to receive equity shares in SCL in lieu of their holding in Star Ferro.

For Star Ferro and Cement Limited


Company Secretary

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Share Entitlement/Exchange Ratio Report

August 1, 2016

Page 2

2 BACKGROUND

2.1 Star Ferro and Cement Limited

We understand that as on April 1, 2016, Star Ferro does not have any operations/significant business interest other than its investment in SCL.

A snapshot of the audited standalone financial statement of Star Ferro as at March 31, 2016 is as shown below:

- Standalone Profit & Loss for the financial year ended March 31, 2016

<u>Particulars (INR Lacs)</u>	<u>FY 2016</u>
Revenue	
Other Income*	2,375.38
Total Revenue	2,375.38
Total Expenses	149.46
Profit/(Loss) before exceptional and extraordinary items and tax	2,225.92

*Includes dividend and interest income. FY-Financial Year
Source: Audited Accounts

- Standalone Balance Sheet as at March 31, 2016

<u>Particulars (INR Lacs)</u>	<u>31-Mar-16</u>
Shareholders' Funds	
Share Capital	2,221.73
Reserves & Surplus	834.89
	3,056.62
Non-current Liabilities	
Long Term Provisions	10.50
	10.50
Current Liabilities	
Other Current Liabilities	7.88
Short Term Provisions	0.42
	8.31
Total	3,075.43
Non-current Assets	
Fixed Assets	
-Tangible Assets	
-Intangible Assets	
Deferred Tax Asset	44.56
Non Current Investments	2,954.75
	2,999.31
Current Assets	
Current Investments	
Cash and Cash Equivalents	72.02
Short Term Loans and Advances	0.84
Other Current Assets	3.26
	76.12
Total	3,075.43

Source: Audited Accounts



2.2 Star Cement Limited

SCL is one of the leading cement manufacturers 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).

A snapshot of the audited consolidated financial statement of SCL (earlier known as Cement Manufacturing Company Limited) is as shown below:

• Consolidated Profit & Loss for the financial year ended March 31, 2016

Particulars (INR Lacs)	FY 2016
Revenue	171,502.94
Other Income	130.46
Total Revenue	171,633.40
Total Expenses	157,050.26
Profit/(Loss) before exceptional and	14,583.14

Source: Audited Accounts, FY-Financial Year

• Consolidated Balance Sheet as at March 31, 2016

Particulars (INR Lacs)	31-Mar-16
Shareholders' Funds	
Share Capital	4,192.14
Reserves and Surplus	101,342.06
	105,534.20
Minority Interest	5,303.70
Non-current liabilities	
Long Term Borrowings	38,433.05
Deferred Tax Liabilities (Net)	1,168.57
Other Long Term Liabilities	9,318.89
Long Term Provisions	267.75
	49,188.26
Current liabilities	
Short Term Borrowings	36,474.61
Trade Payables	14,038.73
Other Current Liabilities	35,901.74
Short Term Provisions	148.09
	86,563.17
Total	246,589.34
Non-current Assets	
Fixed Assets	
Tangible Assets	91,897.59
Intangible Assets	15.99
Capital Work in Progress	4,897.05
Total Fixed Assets	96,810.62
Non Current Investments	152.86
Long Term Loans and Advances	43,596.26
Other Non Current Assets	51.86
	140,614.60
Current Assets	
Inventories	20,916.41
Trade Receivables	44,880.17
Cash and Cash Equivalents	2,376.09
Short Term Loans and Advances	37,191.07
	105,974.74
Total	246,589.34

Source: Audited Accounts



3 PROCEDURES

3.1 The procedures used in our analysis included such substantive steps as we considered necessary under the circumstances, including, but not necessarily limited to the following:

- Reading of audited financial statements of Star Ferro and SCL for the year ended March 31, 2016;
- Considered the total number of shares of Star Ferro and SCL as at March 31, 2016;
- Reading of the draft Scheme of Amalgamation;
- Interviews and correspondence with the Management, on which we have relied; and
- Such other analyses, reviews and inquiries, as we considered necessary.

4 KEY CONSIDERATIONS

4.1 As mentioned earlier, as on April 1, 2016 we understand that Star Ferro does not have any operations/significant business interest other than its investment in SCL. Therefore, the value of Star Ferro is driven entirely from the underlying value of its equity holding in SCL.

4.2 Considering the proposed Transaction where under Star Ferro is amalgamating with SCL, and given that the value of Star Ferro is driven entirely from the underlying value of its equity holding in SCL, an individual valuation of either SCL (including its subsidiaries) or Star Ferro is not necessary and has not been performed. The Share Exchange Ratio has been derived based on the shareholding pattern of the Star Ferro (holding company) and its ownership interest in SCL as at March 31, 2016.

4.3 We have considered the following shareholding pattern and outstanding number of equity shares of Star Ferro and SCL:

Star Ferro

- As of March 31, 2016, the issued, subscribed and fully paid up capital of Star Ferro comprises of 222,172,990 equity shares of INR 1/- each. The shareholding pattern of which is as follows:

Shareholders	No of shares	% holding
Promoter and Promoter group	148,058,928	66.64%
Public	74,114,062	33.36%
Total Shares	222,172,990	100.00%

Source: BSE Limited

SCL

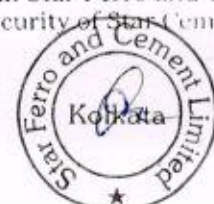
- As of March 31, 2016, the issued, subscribed and fully paid up capital of SCL comprises of 419,213,920 equity shares of INR 1/- each. The shareholding pattern of which is as follows:

Shareholders	No of shares	% holding
Promoter and Promoter group	119,455,050	28.50%
Star Ferro and Cement Limited	295,475,000	70.48%
Public	4,283,870	1.02%
Total no of shares outstanding	419,213,920	100.00%

Source: Management

4.4 As per the Scheme, we understand that the existing equity shares of SCL held by Star Ferro shall stand cancelled upon amalgamation, and in exchange of their shareholding in Star Ferro, Promoter and Promoter group and Public shall be issued and allotted fully paid up equity shares of SCL. In terms of the Scheme and SEBI Circular dated 30th November, 2016, SCL will seek listing of its shares on recognized stock exchange/s i.e., National Stock Exchange of India Limited and BSE Limited, where existing shares of Star Ferro are listed.

4.5 The Scheme provides that in case any member's shareholding in Star Ferro and Cement Limited is such that such member becomes entitled to a fraction of a security of Star Cement Limited, no



fractional shares shall be issued by Star Cement Limited in respect of the fractional entitlements/shares but the Board of Directors of Star Cement Limited or a committee thereof shall consolidate all such fractional shares and issue consolidated securities to a Director and / or Officer(s) of Star Cement Limited on the understanding that such Director and/or Officer(s) to whom such New Equity Shares are allotted shall sell the same in the market and pay to Star Cement Limited net sale proceeds thereof, whereupon Star Cement Limited shall distribute such net sale proceeds to the members of Star Cement Limited in proportion to their fractional entitlements.

5 RECOMMENDATION OF SHARE EXCHANGE RATIO FOR THE PROPOSED AMALGAMATION/MERGER

Taking the above considerations into account and subject to our comments indicated herein, the recommended Share Entitlement / Exchange Ratio in our opinion is:

- For every **1.00** equity share of face value INR 1.00 each fully paid up and held in Star Ferro and Cement Limited, the equity shareholders of Star Ferro and Cement Limited shall be entitled to **1.33** equity shares of face value INR 1.00 each fully paid up of Star Cement Limited.

6 LIMITATIONS

- 6.1 For the purpose of arriving at the Share Exchange Ratio, we have essentially relied on the information provided to us by the management of Star Ferro and SCL (the "Management") and which we believe to be reliable and our conclusions are dependent on such information being complete and accurate in all material respects.
- 6.2 We have based our assessment on information provided by the Management and supplemented by limited industry and financial analysis. While we have endeavoured to access and review relevant information in the public domain, we are unable to make any representations or give any assurances for the same. Accordingly, while our work has involved an analysis of financial information, our engagement does not include an audit of the existing business records. Further, we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided by the Management.
- 6.3 Based on our analysis and discussions, certain adjustments have been made either by the Management or by us, when considered to be material and necessary in light of our review. Our reliance and use of this information should not be considered as an expression of our opinion on it, and we do not and will not accept any responsibility or liability for the impact of any inaccuracies in it on our Share Exchange Ratio.
- 6.4 Determination of share exchange ratio is not a precise science and the conclusions arrived at in many cases will, of necessity, be subjective and dependent on the exercise of individual judgement. There is, therefore, no indisputable single share exchange ratio. While we have arrived at the Share Exchange Ratio based on the information available to us and within the scope and constraints of our engagement, others may have a different opinion. You acknowledge and agree that you have the final responsibility for determination of the Share Exchange Ratio for the proposed amalgamation and factors other than our report will need to be taken into account in determining such ratios; these will include your own assessment of the proposed amalgamation and may include the input of other professional advisors.
- 6.5 We owe responsibility to only the Board of Directors of the Companies which have retained us, and nobody else. We do not accept any liability to any third party in relation to the issue of this Report. This Report is not a substitute for the third party's own due diligence/appraisal/enquiries/ independent advice that the third party should undertake for his purpose. It is understood that this analysis does not represent a fairness opinion.



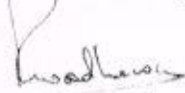
- 6.6 In addition, this Report does not in any manner address the prices at which equity shares will trade following consummation of the Transaction and we express no opinion or recommendation as to how the shareholders of either Company should vote at any shareholders' meeting(s) to be held in connection with the Transaction.

7 USE OF REPORT

- 7.1 This letter report is prepared for the Board of Directors of Star Ferro and SCL and to the extent mandatorily required under applicable laws of India, may be produced before regulatory or government authorities, stock exchanges where shares of Star Ferro are listed, the shareholders of Star Ferro and SCL, Registrar of Companies, High Court of the state where the registered office of Star Ferro and SCL is located and disclosed on the Company website if required under any applicable laws in India, in connection with the Transaction. While due care has been exercised in carrying out the engagement, we shall not accept any responsibility or liability to third parties to whom our Report may have been shown or into whose hands it may come. Such parties are advised to carry out their own independent assessment or to obtain professional advice before taking relevant decisions.
- 7.2 This report is not to be referred to or quoted, in whole or in part, in any offering memorandum, prospectus, registration statement, public filing, loan or other agreement or document without our express written approval, which may require that we perform additional work.
- 7.3 In no event shall we be liable for any loss, damages, cost or expenses arising in any way from fraudulent acts, misrepresentations or willful default on part of Star Ferro and/or SCL, their directors, employees or agents. In no circumstances shall the liability of Price Waterhouse & Co LLP, its partners, directors or employees, relating to the services provided in connection with the engagement set out in this report exceed the amount paid to us in respect of the fees charged for these services.

We would like to record our appreciation for the courtesy and co-operation received by us during the course of our work.

Yours faithfully



Rajan Wadhawan
Partner

Membership Number: 090172
For and on behalf of
Price Waterhouse & Co LLP
ICAI Registration No 016844N/ N-500015

