

KEYNOTE

Strictly Private and Confidential

Date: November 05, 2022

To,
The Board of Directors,
ISMT Limited
Panama House,
Viman Nagar,
Pune -411014
Maharashtra, India

Subject: Fairness Opinion on the equity share exchange ratio for the proposed merger of Indian Seamless Metal Tubes Ltd ('ISMT') with Kirolskar Ferrous Industries Limited ("KFIL").

Dear Sir(s)/ Madam,

We refer to the engagement letter dated November 2, 2022 ("**Engagement Letter**") whereby the management of ISMT Limited had appointed Keynote Financial Services Limited to undertake valuation exercise and provide a fairness opinion to the ISMT Board of Directors and its committees on the share exchange ratio recommended by Amit Jain - Registered Valuer, for the proposed merger of ISMT with KFIL ("**Proposed Transaction**").

As part of the Proposed Transaction, KFIL would be discharging the consideration by making issue of equity shares to the shareholder of ISMT. In this regard, we are issuing this report to determine the fairness of the share exchange ratio determined by the Registered Valuer.

This report sets out our scope of work, background, source of information, procedures performed by us, and our opinion on the fairness of the proposed share exchange ratio.

KEYNOTE

BACKGROUND, SCOPE AND PURPOSE OF THIS REPORT

Indian Seamless Metal Tubes Limited ('ISMT')

ISMT Limited – is one of the largest integrated specialized seamless tube manufacturer in India. ISMT is predominantly engaged in the manufacturing of specialty alloy and bearing Steel. The end user segments are largely Bearing, Automotive, Engineering and Forging Customers apart from some customers requiring steel for specialized application. The fortunes of the specialty and alloy steel products is closely linked to automotive and auto component industry. ISMT has integrated Steel Plant which uses the Electric Arc Furnace technology to produce Steel.

ISMT's tubes are ideal for application such as manufacture of bearing, automobile components, drill rods, hydraulic cylinders, gas lines, boilers, etcetera. Apart from Sebring seamless tubes, ISMT also manufactures a wide range of value-added products made from tubes for each of these industries. These include items such as bearing rings, gear blanks, shifter sleeves, cages for constant velocity joints, swaged and machined axles, threaded and coupled casings, couplings, and a host of similar products.

ISMT is the leading producer of bearing steels in India with over 70% market share. The quality consciousness that the bearing industry necessarily demands has enabled ISMT to extend the same culture to other product lines and thereby carve out a niche as a specialized producer of carbon and alloy steel. Today, in addition to bearing steels we produce a vast array of specialized high-quality steel for the automotive industry, the forging industry, the textile machinery, fasteners and various other applications. All are steel is produced through the electric arc furnace route, is ladle refined, vacuum degassed, continuous cast and rolled.

Kirloskar Ferrous Industries Limited ('KFIL')

Kirloskar Ferrous Industries Limited is one of the fastest growing companies in the business of Pig Iron and Iron Castings. It is the only company in Asia with an integrated business model of mines to machined castings. With three manufacturing facilities in Koppal, Hiriyur (in Karnataka) and Solapur (in Maharashtra), it has pioneered itself in manufacturing products that serve a discerning customer base. Some of the world's major automobile manufacturers use its cylinder block, head castings, and housing in a wide range of engines, including construction machines, farm equipment, and utility vehicles. The pig iron is used to create a wide range of cast iron products that are vital in a variety of sectors.

Background of the Transaction:

The management of KFIL has informed us that they are proposing merger of ISMT into and with KFIL in accordance with the provisions of Sections 230 to 232 of the Companies Act, 2013 or any statutory modifications, re-enactment or amendments thereof for the time being in force read with the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016, as amended from time to time and all other applicable provisions, if any, of the Act and any other applicable law for the time being in force including the applicable provisions of SEBI Guidelines and the rules.

KEYNOTE

In this regard, we have been appointed to issue a report on the fairness on the recommended equity share exchange ratio for merger of ISMT with KFIL as per the Proposed Scheme.

Our report relates to the Proposed Transaction as aforesaid, wherein an independent opinion is required on the fair share exchange ratio between ISMT and KFIL for issuing KFIL's equity shares in exchange of acquisition of equity shares of ISMT. The equity shares to be issued for the aforesaid acquisition of KFIL will be based on the fair share exchange ratio as determined by the Board of Directors of ISMT on the basis of the fairness of the share exchange ratio mentioned in our report.

The scope of our services is to conduct a valuation exercise as at the Valuation Date to determine the fairness of the share exchange ratio determined by the Registered Valuer between ISMT and KFIL using internationally accepted valuation methodologies as may be applicable including requirement prescribed by the Securities and Exchange Board of India ('SEBI') Regulations as may be applicable to listed companies.

This report is our deliverable for the said engagement and is subject to the scope, assumptions, exclusions, limitations and disclaimers detailed hereinafter. As such, the report is to be read in totality and in conjunction with the relevant documents referred to therein.

KEYNOTE

SOURCES OF INFORMATION

In connection with this exercise, we have used the following information received from the management and/or obtained from the public domain:

- Financial statements of ISMT for the financial year ('FY') ended March 31, 2021 ('FY21'), March 31, 2022 ('FY22') and half year ended 30th September 2022.
- Standalone and Consolidated Financial statements of KFIL for the financial year ('FY') ended March 31, 2021 ('FY21'), March 31, 2022 ('FY22') and quarter ended 30th June 2022.
- Details of share capital as on the Valuation Date of ISMT and KFIL;
- Share price and volume data for equity shares of ISMT and KFIL sourced from National Stock Exchange of India Ltd database available on its website;
- Discussions and correspondences with the management to inter-alia understand the historical performance, key value drivers, and competitive scenario;
- Other information and documents considered relevant for the purpose of this engagement.
- Valuation Report of Amit Jain, Registered Valuer dated 05th November, 2022 ("Valuation Report")

Industry and economy information:

- Information available in the public domain and databases such as Capital IQ and other subscribed databases.
- Such other information and relevant data, representations, information and explanations provided by the Management as considered relevant for the purpose of this engagement.

We have also considered/ obtained such other analysis, review, explanations and information considered reasonably necessary for our exercise, from the management.

PROCEDURE ADOPTED

Procedures adopted for our analysis included such substantive steps as we considered necessary under the circumstances, including, but not necessarily limited to the following:

- Discussion with the management to:
 - Understand the business and fundamental factors that affect the business of ISMT and KFIL including their earning generating capability.
 - Enquire about the historical financial performance and current state of affairs.
- Analyzed the economic and competitive environments in which ISMT and KFIL operates;
- Such other analyses, reviews and inquiries, as we considered necessary;
- Selection of appropriate internationally accepted valuation methodology/ (ies) after deliberations and consideration to the sector in which ISMT and KFIL operate and analysis of the size of business operations, the stage of ISMT and KFIL in its lifecycle, financial performance, etc.;
- Arrived at valuations of using the method/(s) considered appropriate; and
- Arrived at the fair share exchange ratio for the Proposed Transaction.

KEYNOTE

SCOPE, LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS

Provision of fairness opinions and consideration of the issues described herein are areas of our regular practice. The services do not represent accounting, assurance, accounting/ tax due diligence, consulting or tax related services that may otherwise be provided by us.

The recommendation contained herein is as at the Valuation Date and is not intended to represent value at any time other than the Valuation Date.

This report, its contents and the results herein are specific and subject to:

- the purpose of the fairness opinion report agreed as per the terms of the engagement;
- the date of the report;
- market price reflecting the fair value of the underlying equity shares of ISMT and KFIL; and
- data detailed in the section - Sources of Information

We have been informed by the management that the business activities of ISMT and KFIL have been carried out in the normal and ordinary course between the latest financials and the report date and that no material changes have occurred in their respective operations and financial position between the latest available financials and the Valuation Date.

An analysis of this nature is necessarily based on the prevailing stock market, financial, economic and other conditions in general and industry trends in particular. It is based on information made available to us as of the date of this report, events occurring after that date hereof may affect this report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this report.

The ultimate analysis will have to be tempered by the exercise of judicious discretion by the valuer and judgment taking into account the relevant factors. There will always be several factors e.g., management capability, the present and prospective yield on comparable securities, market sentiment etc., which are not evident on the face of the financial statements, but which will strongly influence the equity value/ the worth of the security.

The recommendation(s) rendered in this report only represent our recommendation(s) based upon information furnished by the management (or its representatives) till the date of this report and other sources, and the said conclusion shall be considered to be in the nature of non-binding advice (our recommendation should not be used for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors).

The determination of fair value for arriving at a fair share exchange ratio is not a precise science and the conclusions arrived at in many cases, be subjective and dependent on the exercise of individual judgment. There is, therefore, no indisputable single fair value. While we have provided our recommendation of the fair 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. The final responsibility for the determination of the fair share exchange ratio at which the Proposed Transaction shall take place will be with the board of directors of ISMT, who should take into account other factors such as their own assessment of the Proposed Transaction and input of other advisors.

KEYNOTE

In the course of our analysis, we were provided with both written and verbal information, including market, technical, financial and operating data including information as detailed in the section - Sources of Information by the management.

In accordance with the terms of our engagement, we have assumed and relied upon, without independent verification of,

- i) the accuracy of information that was publicly available which formed a substantial basis for the report; and
- ii) the accuracy of information made available to us by the management.

We have not carried out a due diligence or audit or review of ISMT or KFIL for the purpose of this engagement, nor have we independently investigated or otherwise verified the data provided.

We are not legal or regulatory advisors with respect to legal and regulatory matters for the Proposed Transaction. We do not express any form of assurance that the financial information or other information as prepared and provided by the management is accurate. Also, with respect to explanations and information sought from the advisors, we have been given to understand by the management that they have not omitted any relevant and material factors and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt. Accordingly, we do not express any opinion or offer any form of assurance regarding its accuracy and completeness.

Our conclusions are based on these assumptions and information given by/ on behalf of the management. The management have indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our recommendation. Accordingly, we assume no responsibility for any errors in the information furnished by ISMT and their impact on the report. Also, we assume no responsibility for technical information (if any) furnished by the management. However, nothing has come to our attention to indicate that the information provided was materially misstated/ incorrect or would not afford reasonable grounds upon which to base the report. We do not imply, and it should not be construed that we have verified any of the information provided to us, or that our inquiries could have verified any matter, which a more extensive examination might disclose.

The report assumes that ISMT and KFIL complies fully with relevant laws and regulations applicable in all its areas of operations and that they will be managed in a competent and responsible manner. Further, except as specifically stated to the contrary, this report has given no consideration on 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 represented to us by the management.

This report does not look into the business/ commercial reasons behind the Proposed Transaction nor the likely benefits arising out of the same. Similarly, the report does not address the relative merits of the Proposed Transaction as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available. This report is restricted to recommendation of fair share exchange ratio only

KEYNOTE

The fee for the engagement is not contingent upon the results reported.

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 purpose of determining the fairness of the share exchange ratio for the Proposed Transaction and relevant filing with regulatory authorities and shareholders of ISMT in this regard, without our prior written consent.

In addition, this report does not in any manner address the prices at which equity shares of ISMT or KFIL shall trade following consummation of the Proposed Transaction and we express no opinion or recommendation as to how shareholders of ISMT or KFIL should vote at any shareholders' meetings. Our report and the opinion/ valuation analysis contained herein is not to be construed as advice relating to investing in, purchasing, selling or otherwise dealing in securities.

CONCLUSION:

In light of the above and based on our examination of the Proposed Scheme, Valuation Report dated 05th November 2022, and other information as provided to us by the management of ISMT and our independent analysis and evaluation of such information and subject to scope and limitations mentioned herein above, we are of the opinion that the share exchange ratio of 1 share of KFIL for every 5.9 shares of ISMT (rounded off to 17 shares of KFIL for every 100 shares of ISMT) is fair to the shareholders of ISMT.

Yours sincerely,



Keynote Financial Services Limited
SEBI Registration No. INM000003606
(Category I Merchant Banker)