

**Valuation report for proposed merger of ISMT Limited and Kirloskar Ferrous Industries  
Limited**

**5<sup>th</sup> November 2022**

*Private and Confidential*

---



**Amit Suresh Jain, ACA**

Registered Valuer (Securities or Financial Assets) under IBBI  
Registration Number IBBI/RV/05/2019/12675

5<sup>th</sup> November 2022

To,  
The Board of Directors  
ISMT Limited  
Pune - 411014

Dear Sir/Madam,

**Re: Valuation of equity shares of ISMT Limited and Kirloskar Ferrous Industries Limited for arriving at Share Exchange Ratio**

This has reference to the engagement letter appointing me, Amit Suresh Jain with Registered Valuer Registration Number IBBI/RV/05/2019/12675, to provide valuation services to ISMT Limited ("ISMT" or "the Client" "or "the Company") to undertake valuation of ISMT's equity shares to determine share swap ratio for proposed merger with its holding company - Kirloskar Ferrous Industries Limited ("KFIL") as on 4<sup>th</sup> November 2022 ("Valuation Date").

I hereby confirm that I have no present or planned future interest in the Company, except to the extent of my appointment as a registered valuer for this valuation report ("Report"). I hereby confirm that the valuation of equity shares of the Company is carried out as per International Valuation Standards ("IVS").

A summary of the analysis is presented in the accompanying Report as well as description of the methodology and procedure used, and the factors considered in formulating the opinion. In addition, I have listed the sources of information used in this Report and the scope of work in the course of the assignment, noting any limitations on the assignment. This Report is subject to the attached limitation conditions & exclusions and to all terms and conditions in the engagement letter for this assignment.



Report must be considered as a whole. Selecting portions of my Report or the factors I considered, without considering all factors and analysis together could create a misleading view of the process underlying the valuation conclusions. The preparation of a valuation is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis.

This letter should be read in conjunction with the attached report.

Regards,



---

**Amit Suresh Jain, ACA, Registered Valuer (S&FA)**  
IBBI Registration Valuer No: IBBI/RV/05/2019/12675

Encl: As above

## Table of Contents

Sr. No.	Particulars	Page No.
1	Background & Purpose	5
2	Sources of Information & Procedure	5
3	Valuation Approach & Methodology	6
4	Valuation of ISMT and KFIL	8
5	Valuation Summary & Share Exchange Ratio	9
6	Terms of Engagement	10
7	Limiting Conditions & Exclusions	10
8	Annexures	13



## 1. Background & Purpose

### Background - ISMT

ISMT is a company incorporated under the Companies Act, 1956, having its registered office at Panama House (earlier known as “Lunkad Towers”), Vimannagar, Pune 411014, Maharashtra, India. ISMT is mainly engaged in the business of manufacturing of specialty alloy, bearing steel and seamless tubes.

ISMT is a listed company whose shares are traded on the BSE and NSE. As informed by the Management, as of Valuation Date, share capital of the Company consists of 300,501,383 equity shares on fully diluted basis.

### Background - KFIL

KFIL is a company incorporated under the Companies Act, 1956, having its registered office at 13 Laxmanrao Kirloskar Road, Khadki, Pune - 411003, Maharashtra, India. KFIL is engaged in the business of manufacturing pig iron and grey iron castings and caters to industry sectors such as tractors, automotives and diesel engines.

KFIL is a listed company whose shares are traded on the BSE and NSE. As informed by the Management, as of Valuation Date, share capital of the Company consists of 141,285,244 equity shares on fully diluted basis.

### Purpose

I understand that as of Valuation Date, KFIL holds 51.25% stake in ISMT. Further, as represented by the Management of ISMT, Management of ISMT is contemplating merger of ISMT and KFIL (“the Proposed Transaction”). In this regard, client has approached me to arrive at fair valuation of ISMT and KFIL to arrive at share exchange ratio.

## 2. Sources of Information and Procedure

2.1. For the purpose of undertaking the valuation exercise of ISMT of KFIL, I have relied on the following sources of publicly available information:

- Audited financial statements and Annual reports for the year ended March 2022;
- Quarterly results for the quarters ending September 21, December 21, March 22, June 2022 for ISMT and KFIL;
- Quarterly results for the quarter ending September 2022 for ISMT;
- Discussions with management of ISMT regarding the business operations of the Company;
- Business description, Annual report, and quarterly results (June 2022 / September 2022 as available) of comparable companies available on public resources;
- Industry related information from various publicly available sources; and



- Other relevant data and information provided to us, whether in oral or physical form or in soft copy, and discussions with the representatives of the Client.

2.2. In connection with information, I have adopted the following procedures to carry out the valuation:

- Requested and received financial and qualitative information relating to the Company;
- Discussions with the Management to Understand the business and fundamental factors that affect its earning-generating capability including strengths, weaknesses, opportunity and threats analysis and historical financial performance.
- Analyzed the information received;
- Selection of valuation methodology/(ies) as prescribed by International Valuation Standards (“IVS”). For the purpose of arriving at the valuation of the Company I have considered the valuation base as ‘Fair Value.’ My valuation, and this report, is based on the premise of going concern value. Any change in the valuation base, or the premise could have significant impact on my valuation exercise, and therefore, this Report.
- Determination of Fair Value of the equity Shares of ISMT and KFIL and share exchange ratio as on the Valuation Date.
- ISMT has informed me that Keynote Financial Services Limited (“Keynote”) has been appointed to provide fairness opinion on the recommended share exchange ratio. Accordingly, as requested by the Client, I have had discussions with Keynote on the valuation approaches adopted and assumptions made by us.
- I also understand that KFIL has appointed BDO India LLP (“the other Valuer”) for determining share exchange ratio.

### 3. Valuation Approach & Methodology

#### Valuation Approaches

I have considered the following approaches in determining the Value of equity shares of ISMT and KFIL as of Valuation Date. The following paragraphs describe these approaches and the various methodologies utilized for the Valuation: -



## Asset Approach

---

Asset based approaches aim to determine the value of a business by valuing its assets on carrying value, replacement value or liquidation value basis, less liabilities. Net Asset Value (NAV) method is useful for the valuation of businesses which are either more assets intensive or those that do not have material operations of their own.

*I have not used this method to arrive at the value of equity shares of ISMT and KFIL, as asset approach is generally adopted by for companies having minimal operations or experiencing issues relating to liquidation.*

## Income Based Approach

---

The Income Approach is a general method of determining a value indication of a business based on its ability to generate desired economic benefit in future. Depending on the nature of the business, anticipated benefits may be reasonably represented by items such as net cash flow, dividends, and various forms of earnings. Conversion of those benefits may be accomplished by either capitalization or discounting techniques. The well-known methods under Income Approach are Discounted Cash Flow Method (DCF), Capitalization of Earnings Method etc.

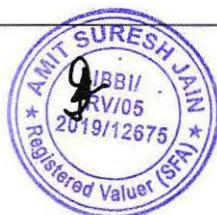
*Income approach requires projected financial statements of at least 3-5 forthcoming years which are based on numerous assumptions which are subjective to the approach of the management. As I was not provided with detailed projected financial statements, I have not used income-based approach to arrive at fair value of equity shares of ISMT and KFIL.*

## Market Based Approach

---

The Market Approach is a general method of determining a value indication of business by comparing the target company with similar companies (CCM) listed on stock exchanges or comparable transactions (CTM) that have occurred in the market involving the companies similar to the target company. Comparable market transactions in business, business ownership interest, or securities in peer companies can provide a reasonable basis for estimating / providing a benchmark for valuation of the subject company.

*As both the companies, ISMT and KFIL, are listed companies, I have used Market Price Method along with Comparable Company method ("CCM").*



CCM evaluates the value of a company using the metrics of other businesses of similar size in the same industry. The data available on the public resources of peer listed companies are actual information hence, it involves no assumptions and scope of alteration also reduces, making the information more realistic, true and fair.

Apart from CCM, I have also used 60 days Volume Weighted Average Price ("VWAP") of shares of ISMT and KFIL to arrive at fair value of equity shares of ISMT and KFIL respectively.

#### 4. Valuation of ISMT & KFIL

After consideration of the specific facts concerning ISMT and KFIL, I have selected the following methods to determine Value of the Company: -

- **Market Approach**
  - Comparable Company Method
  - Market Price Method

#### Comparable Company (CCM) Method

##### ISMT

Under CCM, Valuation of equity shares of ISMT is determined by considering median of EV / Sales multiple of the comparable companies as specified in **Annexure 2**. The multiple so arrived has been adjusted with the discount on account of size and profitability. For valuing ISMT, EV / Sales multiple has been preferred due to lack of consistent history in generating EBITDA positive margins. Discounting multiple then arrived has been multiplied with TTM (Sep 22) revenue numbers of ISMT.

Enterprise Value so arrived further increased by Cash and cash equivalents and surplus asset and reduced by Debt and Minority interest to arrive at the equity value of ISMT as per CCM Method. Equity value of the Company thus derived is **INR 16,425.4 million. (Kindly refer Annexure 2)**

As on Valuation Date, share capital of the Company consists of 300,501,383 equity shares on fully diluted basis. Accordingly, per share value of ISMT as per CCM works out to be **INR 54.7 Per share. (Kindly refer Annexure 2)**



## KFIL

Under CCM, Valuation of equity shares of KFIL has been determined by considering median of EV / EBITDA multiple of the comparable companies as specified in **Annexure 3**. For valuing KFIL, EV / EBITDA multiple has been preferred due consistent history of generating EBITDA positive margins. The said multiple then arrived has been multiplied with TTM (June 22) EBITDA numbers of KFIL.

Enterprise Value so arrived further increased by Cash and cash equivalents, fair value of investments and loan to ISMT and further reduced by Debt to arrive at the equity value of KFIL as per CCM Method. Equity value of the Company thus derived is **INR 55,090.9 million. (Kindly refer Annexure 3)**

As on Valuation Date, share capital of the Company consists of 141,285,244 equity shares on fully diluted basis. Accordingly, per share value of KFIL as per CCM works out to be INR 389.9 Per share. **(Kindly refer Annexure 3)**

### Market Price Method

As on Valuation Date, I have considered 60 days VWAP to arrive at the market price per share of ISMT and KFIL which works out to be INR 53.2 per share and INR 266.8 per share respectively. *(Source: - BSE data)*

## **5. Valuation Summary & Share Exchange Ratio**

### Fair Value Per Share

I have applied 60:40 weightage to CCM and Market price method to arrive at Fair Value of equity shares of ISMT and KFIL. Accordingly, weighted average Fair Value per share of ISMT and KFIL works out to be **INR 53.8** and **INR 316.1** per share respectively. Kindly refer **Annexure 4** for detailed calculation

### Share Exchange Ratio

Based upon the calculations above and fair value per share arrived, the share exchange ratio works out to be 5.9:1 i.e., 1 equity share of KFIL against 5.9 equity shares of ISMT. Accordingly, for every 100 shares of ISMT, shareholders of ISMT will be entitled to 17.0 shares of KFIL.

**Hence, share exchange ratio recommended is 100:17 i.e., 17 shares of KFIL will be issued against every 100 shares of ISMT.**



## 6. Terms of Engagement

### A) Context and Purpose

- ISMT has appointed me to determine the fair value of the equity shares of ISMT and KFIL and share exchange ratio for the purpose of the Proposed Transaction as mentioned in Section 1 of this Report.
- This valuation analysis exercise and valuation report is solely for the purpose mentioned herein in the Report. As per the discussion held with the Management, the cut-off date for present valuation analysis exercise is 4<sup>th</sup> November 2022.

### B) Restricted Audience

- This report and the information contained herein are absolutely confidential and are intended for the use of the Management only for submitting to the Statutory Authorities for compliance.
- It should not be copied, disclosed, circulated, quoted or referred to, either in whole or in part, in correspondence or in discussion with any other person except to whom it is issued without my written consent. It can however be relied upon and disclosed in connection with any statutory and regulatory filing in connection with the Proposed Transaction in accordance with the provision of the Act. In the event the Management extend the use of the report beyond the purpose mentioned earlier in the report, with or without my consent, I will not accept any responsibility to any other party (including but not limited to the Investors, Merchant Bankers and Placement agent, if any) to whom this Report may be shown or who may acquire a copy of the Report.

## 7. Limitations Conditions & Exclusions

- 7.1. The Report is subject to the specified assumptions and limiting conditions detailed hereinafter. This Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.
- 7.2. The Report is based on the financials and non-financial information, provided by the Management and publicly available resources same was reviewed and analyzed by me for the limited purpose of carrying out fair valuation and not for any other purpose(s) including audit or due diligence. The valuation exercise has been carried out independently and is fair and transparent in all manners.
- 7.3. Information pertaining to the Merger has been provided by the Management of the Company and the same has been relied upon by me. The assumptions, if any, require exercise of judgment and are subject to uncertainties. Also, I have relied on the sources of information referred in Section 2 of the Report.



- 7.4. Since the engagement is for a specified agreed scope and is performed within the restrictions of the specific regulatory guidelines, the procedures applied are limited. The management of the Company and other concerned individuals have represented to me that the information supplied was complete and accurate to the best of their knowledge and that the financial information properly reflects the business conditions and operating results for the respective periods in accordance with the Generally Accepted Accounting Principles. However, I issue no warranty or other form of assurance regarding its accuracy. The information presented in this Valuation Report does not reflect the outcome of any due diligence procedures, which may change the information contained herein and, therefore, the valuation report materially.
- 7.5. I have not done any independent technical valuation or appraisal or due diligence of the assets or liabilities of the Company and has considered them at the value as disclosed by the Company in their regulatory filings or in submissions, oral or written, made to us. Nothing has come to my knowledge to indicate that the material provided to me was misstated or incorrect or would not afford reasonable grounds upon which to base my Report.
- 7.6. In the circumstances of this case, I shall be liable only to the Management. I shall have no liability (in contract or under statute or otherwise) to any other party for any economic loss or damage arising out of or in connection with this engagement, however the loss or damage is caused other than in cases of fraud, gross negligence, or willful misconduct, or on account of any natural calamities, shall be limited to the amount of fees actually received by me as laid out in the engagement letter, for such valuation work.
- 7.7. This Report does not look into the business / commercial reasons behind the Purpose of Valuation nor the likely benefits arising out of the same. The assessment of commercial and investment merits of the Company are sole responsibility of the investors of the Company and I do not express opinion on the suitability or otherwise of entering into any financial or other transactions with the Company.
- 7.8. This report and the computation are not nor should be construed as my opinion or certification of the compliance with the provisions of any law/ standards including company, foreign exchange regulatory, accounting and taxation (including transfer pricing) laws/ standards or as regards any legal, accounting or taxation implications or issues. As I am not advisor with respect to accounting, legal, tax and regulatory matters, no responsibility is assumed for matters of a legal nature.
- 7.9. The valuation analysis in this Report should not be construed as investment advice; and I do not express any opinion on the suitability or otherwise of entering any financial or other transactions with the Company.



- 7.10. If the information provided to me is revised in any form or manner, the valuation may need to be updated. I have no obligation to update the report or the opinion of value for information that comes to my attention after the date of the report.
- 7.11. The estimates of value contained herein are not intended to represent value of the Company at any time other than the date specifically mentioned for the valuation result, as per the agreed scope of engagement.
- 7.12. A draft of this report was shared with the Company, prior to finalization of report, as part of my standard practice to make sure that factual inaccuracy/omission are avoided in the report.

Yours faithfully,



**Amit Suresh Jain, ACA, Registered Valuer (S&FA)**

IBBI Registration Valuer No: IBBI/RV/05/2019/12675

UDIN: **22143649BCHUME6976**



## Amit Suresh Jain, ACA

Registered Valuer (Securities or Financial Assets) under IBB  
Registration Number IBB/RV/05/2019/12675

### Annexure 1

#### ISMT – Comparable Company business description

<u>Name of Company</u>	<u>Business Description</u>
Vardhman Special Steels Limited	Caters to diverse requirements of hot-rolled bars for Engineering, Automotive, Tractor, Bearing, and Allied Industries.
Welspun Corp Limited	Manufactures line pipes at its plants in India at several locations and products include longitudinal, spiral, and high-frequency induction-welded pipes.
Maharashtra Seamless Limited	Engaged in the manufacture of seamless pipes (various capacities), which find application in oil exploration, boilers, pipelines, petrochemicals, etc. The company manufactures ERW Pipes and Coated Pipes
Sunflag Iron and Steel Company Limited	Engaged in spring steel production for automobile use in Engines, Drives, Transmissions, Suspensions applications.
Goodluck India Limited	Engaged in manufacturing and exporting a wide range of galvanized sheets & coils, towers, hollow sections, CR coils, and pipes & tubes.
JTL Infra Limited	Manufactures Electric Resistance Welded (ERW) steel pipes and is one of the largest section pipe & tube manufacturers in India.



**Annexure 1**

**KFIL – Comparable Company business description**

<b><u>Name of Company</u></b>	<b><u>Business Description</u></b>
Tata Metaliks Limited	Manufactures pig iron, ductile iron pipes, casting, iron ore fines, coke breeze and limestone.
Electrosteel Castings Limited	Engaged in the production of Ductile Iron Pipes in India and Ductile Iron Pipes, Flange pipes, Ductile Iron Fittings
Ramkrishna Forgings Limited	Engaged in manufacturing of forged components for the Indian Railways and other components to domestic M&HCV manufacturers.
M M Forgings Limited	Engaged in the manufacturing and sale of iron and steel forgings. The company offers steel forgings in raw, semi-machined, and fully machined stages in various grades of carbon, alloy, micro-alloy, and stainless steel.



**Annexure 2****Comparable Company Method Calculations – ISMT***(All amounts are in INR Million)*

Particulars	EV/Sales
Median Multiple	0.82
Less:- Discount	-15%
Adjusted Multiple	0.70
Consolidated Revenue (LTM - Sep 22)	24,459.4
<b>Enterprise Value</b>	<b>17,029.7</b>
Add:-	
- Cash & Cash Equivalent (Sep 22)	944.0
- Surplus Asset (Asset held for sale)	588.8
Less:-	
- Debt and Minority Interest (Sep 22)	-2,137.1
<b>Equity Value</b>	<b>16,425.4</b>
Number of Shares	300.5
<b>Per Share Value</b>	<b>54.7</b>

**Median EV/ Sales**

Comparable Companies - ISMT	EV	Sales	EV/Sales
Vardhman Special Steels Limited	11,524.8	16,150.0	0.71
Welspun Corp Limited	73,112.6	68,970.1	1.06
Maharashtra Seamless Limited	49,068.8	53,069.6	0.92
Sunflag Iron and Steel Company Limited	20,286.0	29,273.7	0.69
Goodluck India Limited	18,133.8	28,702.9	0.63
JTL Infra Limited	16,159.8	10,904.5	1.48
<b>Median EV/ Sales</b>			<b>0.82</b>



**Annexure 3**

**Comparable Company Method Calculations – KFIL**

*(All amounts are in INR Million)*

Particulars	EV/EBITDA
Median Multiple	9.3
EBITDA (LTM - June 22)	5,737.5
<b>Enterprise Value</b>	<b>53,120.4</b>
Add:-	
- Cash & Cash Equivalents (March 22)	3,049.2
- Investment in ISMT Limited (at Fair Value)	8,279.1
- Other Investment (At Cost)	43.0
- Loan to ISMT Limited	1,940.0
Less:-	
- Debt	-11,340.8
<b>Equity Value</b>	<b>55,090.9</b>
Number of Shares	141.3
<b>Per Share Value</b>	<b>389.9</b>

**Calculation of Number of shares**

Particulars	No of Shares
As per BSE (as of 30 Sep 22)	13,88,26,844
ESOPs (Old Issue)	7,88,400
ESOPs (New Issue)	16,70,000
<b>Total No of Shares (in Million)</b>	<b>141.3</b>

**Median EV/ EBITDA**

Comparable Companies - FKIL	EV	EBITDA	EV/EBITDA
Tata Metaliks Limited	24,474.5	1,731.9	14.1
Electrosteel Castings Limited	44,576.4	7,448.0	6.0
Ramkrishna Forgings Limited	47,867.4	6,145.7	7.8
M M Forgings Limited	24,234.9	2,259.0	10.7
<b>Median EV/ EBITDA</b>			<b>9.3</b>



**Annexure 4**

**Computation of Share Exchange Ratio**

Valuation Approach	KFIL		ISMT	
	Value per Share	Weight	Value per Share	Weight
Asset Approach	NA			
Income Approach	NA			
Market Approach				
i. Market Price Method (2 Month VWAP)	266.8	60%	53.2	60%
ii. Company Comparable Method	389.9	40%	54.7	40%
<b>Relative Value per Share</b>	<b>316.1</b>		<b>53.8</b>	
<b>Exchange Ratio (rounded off)</b>	<b>1:5.9</b>			

NA – Not Applied/ Not Applicable

**Ratio: 17 (Seventeen)** equity shares of **KFIL** of face value INR 5 each fully paid up for every **100 (Hundred)** equity shares of **ISMT** of face value of INR 5 each fully paid up

1. Asset Approach is not adopted to arrive at the fair value of equity shares of ISMT and KFIL, as asset approach is generally adopted by for companies having minimal operations or experiencing issues relating to liquidation.
2. Income Approach requires projected financial statements of at least 3-5 forthcoming years which are based on numerous assumptions which are subjective to the approach of the management. As I was not provided with detailed projected financial statements, I have not used income-based approach to arrive at fair value of equity shares of ISMT and KFIL.



November 24, 2022

The General Manager,  
Department of Corporate Services,  
**BSE Limited ("BSE")**  
P.J. Towers, Dalal Street,  
Mumbai – 400 001  
**BSE Scrip Code: 532479**

Manager,  
Listing Compliance  
**National Stock Exchange of India Limited ("NSE")**  
'Exchange Plaza', C-1, Block G, BKC,  
Bandra (E), Mumbai - 400 051  
**Symbol: ISMTLTD**

Dear Sirs,

**Subject:**

- (i) Application under Regulation 37 of the SEBI (Listing Obligation and Disclosures Requirements) Regulations, 2015 ("**Listing Regulations**") for the Scheme of Arrangement and Merger ("**Draft Scheme**") amongst ISMT Limited ("**Company**"/ "**Transferor Company**") and Kirloskar Ferrous Industries Limited ("**KFIL**"/ "**Transferee Company**") and their respective shareholders and creditors
- (ii) Valuation report dated November 5, 2022 issued by Mr. Amit Jain, Registered Valuer having registration number IBBI/RV/05/2019/12675.

Dear Sirs,

With reference to the captioned subjects and as required under paragraphs 2 (b) and 2 (j) of Part I of the SEBI Master Circular no. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021, we hereby confirm the following:

- a) No material event impacting the valuation has occurred during the intervening period of filing the Draft Scheme documents with BSE and NSE and the period under consideration for valuation.
- b) There have been no past defaults of listed debt obligations of the Company.

Thanking You.

Yours faithfully,  
For ISMT Limited

  
Chetan Nathani  
Company Secretary

