

February 14, 2018

The Board of Directors  
The Sandur Manganese and Iron Ores Limited  
'SATYALAYA', Door No.266 (Old No.80),  
Behind Taluk Office Palace Road, Ward No.1,  
Sandur, Karnataka - 583119

**Sub: Fairness opinion on the proposed Merger Ratio for The Sandur Manganese and Iron Ores Limited ("SMIORE"), Star Metallica and Power Private Limited ("SMPPL") pursuant to the scheme of Amalgamation under Sections 230 and 232 read with relevant provisions of the Companies Act, 2013**

Dear Sirs,

We refer to the engagement letter dated December 12, 2017 with Karvy Investor Services Limited (hereinafter referred to as "KISL"), wherein SMIORE has requested us to provide fairness opinion on the proposed merger ratio as per the scheme of Amalgamation between The Sandur Manganese and Iron Ores Limited ("SMIORE" / "Transferee Company") and Star Metallica And Power Private Limited ("SMPPL" / "Transferor Company").

## 1. BACKGROUND OF THE COMPANIES

### 1.1 The Sandur Manganese and Iron Ores Limited ("SMIORE" / "Transferee Company")

The Sandur Manganese and Iron Ores Limited ("SMIORE") is a company incorporated under the Companies Act, 1913, having its registered office at 'SATYALAYA', Door No.266 (Old No.80), Behind Taluk Office, Ward No.1, Sandur- 583119, Karnataka. SMIORE is engaged in the business of mining of minerals like Iron Ore, Manganese ore, and also, manufactures ferroalloys.

The equity shares of the SMIORE are listed on BSE Limited ("BSE"). The Company is in the process of seeking listing of its equity shares on National Stock Exchange of India Limited ("NSE").

### 1.2 Star Metallica and Power Private Limited ("SMPPL") / "Transferor Company")

Star Metallica and Power Private Limited ("SMPPL") is a company incorporated under the Companies Act, 1956, having its registered office at Metal & Ferro Alloys Plant P.O. Mariyammanahalli Vyasankere, Hosapete -- 583222, Karnataka. SMPPL is a subsidiary of SMIORE; in which presently 80.58% is held by SMIORE. SMPPL has two ferroalloy furnaces and a 32 MW thermal power plant which is used as a captive unit for its ferroalloy operations. The two ferroalloy furnaces and the thermal power plant have been leased out to SMIORE, Transferee Company for a tenure of 3 years under a Facility Lease Agreement with effect from 1 February 2016.



## Karvy Investor Services Limited

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CIN No. U67120TG1997PLC026253 | SEBI Registration No. MB/INM000008365



## 2. SCOPE AND PURPOSE OF THIS REPORT

- 2.1 We understand that the Board of Directors of Transferor Company and Transferee Company are proposing to merge Transferor Company with Transferee Company under a scheme of amalgamation under the provisions of Section 230 and 232 read with relevant provisions of the Companies Act, 2013 (hereinafter referred to as the "Scheme of Amalgamation") and have obtained a valuation report dated February 14, 2018 from P. Chandrasekar LLP, Chartered Accountants (hereinafter referred to as "Valuer") to arrive at the merger ratio.
- 2.2 In consideration of the merger of Transferor Company with Transferee Company, pursuant to the Scheme of Amalgamation, for every seventy two (72) equity shares of the face value of ₹10 each, held by the shareholders of Transferor Company, the Transferee Company shall issue and allot one (1) equity share of the face value of ₹10 each fully paid up to the shareholders of the Transferor Company.
- 2.3 In this connection, the management of SMOIRE has engaged KISL to submit a report on the fairness of the merger ratio as per the requirements of Securities and Exchange Board of India Circular No. CIR/CFD/CMD/16/2015 dated November 30, 2015 read with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR"). Our scope of work includes commenting only on the fairness of the Merger ratio recommended by the Valuer and not on the fairness or economic rationale of the Merger per se or the valuation methods used by the Valuer.
- 2.4 This report is subject to the scope, limitations and disclaimers detailed hereinafter. As such the report is to be read in totality, not in parts and in conjunction with the relevant documents referred to herein. This report has been issued only for the purpose of facilitating the Scheme of Amalgamation between Transferee Company and Transferor Company and should not be used for any other purpose.

## 3. SOURCES OF INFORMATION

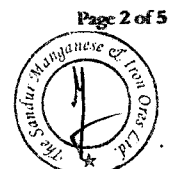
We have relied on the following information for framing our opinion on the fairness of the merger ratio:

- Draft Scheme of Amalgamation between Transferor Company and Transferee Company as certified by the management of the SMOIRE.
- Annual Reports of SMOIRE and SMPPL for financial year March 31, 2017, 2016 and 2015.
- Valuation report of fixed assets of SMPPL dated August 30, 2016 by Er.A.N.Ranganatha Kumar.
- Equity Valuation Report dated February 14, 2018 from P. Chandrasekar LLP, Chartered Accountants
- Other relevant information regarding SMOIRE and SMPPL.

## 4. RATIONALE AND KEY FEATURES OF SCHEME OF AMALGAMATION

4.1 The rationale for the amalgamation as provided in the Scheme of Amalgamation is as follows:

- The Transferee Company, is having Mining Leases No.2678 and No.2679 over an area of about 2,000 hectares for mining manganese and iron ores, which leases are due to expire on 31 December 2033. The Transferee Company seeks to have captive use of manganese ore in the existing ferroalloy plant of the Transferor Company and set up a 1 Million Tonne Per Year Integrated Steel Plant in the vicinity of the ferroalloy plant which will enable captive consumption of its iron ore also.
- In addition, on setting up the proposed integrated steel plant, Transferee Company will become eligible in terms of Rule 6(3) of the Mineral (Auction) Rules 2015, to participate in the auction of 'mines specified for end-use' by the Government of Karnataka.



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- c) The amalgamation will result in administrative and operational rationalization, synergizing the existing expertise, greater efficiency and economical operations and promote organizational efficiencies.
  - d) The amalgamation would result in greater integration and greater financial strength and flexibility for the amalgamated entity, which would result in maximizing overall shareholder value, and will improve the competitive position of the combined entity.
  - e) The amalgamation will provide for pooling of the managerial, technical and financial resources of the Transferor Company and the Transferee Company, which will help in increasing the competitiveness of the amalgamated Company.
  - f) The amalgamation would result in greater efficiency in cash management of the amalgamated entity, and unfettered access to cash flow generated by the combined business, which can be deployed more efficiently to fund growth opportunities, to maximize shareholder value.

4.2 The key features of the Scheme of Amalgamation are as follows:

4.2.1 Upon the coming into effect of this Scheme and with effect from the Appointed Date, the whole of the Undertaking of the Transferor Company, including all properties, whether movable or immovable, freehold or leasehold, real or personal, corporal or incorporeal, material or intellectual, present, future or contingent, including but without being limited to all assets, lands, buildings, plant and machinery, furniture and fittings, capital work in progress and other fixed assets, current assets, receivables (whether in Indian Rupee or foreign currency), credits, investments, reserves, provisions, funds, and all utilities including electricity, telephones, facsimile connections, installations and utilities, benefits or agreements and arrangements, powers, authorities, allotments, approvals, authorizations, tenancies in relation to the offices and/or residential properties for the employees or other persons, guest houses, trade and service names and marks, patents, copyrights and other intellectual property rights of any nature whatsoever, registrations, consents, privileges, liberties, and all the rights, title, interest, benefits, licenses (industrial or otherwise), municipal permissions, registrations, incentives, rebates, benefits and concessions to which the Transferor Company is entitled to in terms of the various statutes and/or schemes of the Union and State Governments including benefit of carry forward and set off of accumulated loss, allowance of unabsorbed depreciation, minimum alternate tax credit entitlement, sale tax benefit concessions and other benefits and credits to which the Transferor Company is entitled under Income-tax Act and advantages of whatsoever nature and wheresoever situated belonging to or in the possession of or granted in favour of or enjoyed by the Transferor Company (hereinafter referred to as "Assets") and all secured and unsecured debts (whether undertaken in Indian Rupee or foreign currency) outstandings, liabilities (including contingent liabilities), duties and obligations shall be transferred to and vest in the Transferee Company so as to become on and from the Appointed Date the undertaking of the Transferee Company without any further act, instrument or deed.

4.2.2 The transfer and vesting of all the Assets of the Transferor Company, as aforesaid, shall be subject to the existing charges, mortgages and encumbrances, if any, over or in respect of any of the Assets or any part thereof, provided however that such charges, mortgages and/or encumbrances shall be confined only to the relative Assets of the Transferor Company or part thereof on or over which they are subsisting on transfer to and vesting of such Assets in the Transferee Company and no such charges, mortgages, and/or encumbrances shall be enlarged or extend over or apply to any other asset(s) of the Transferee Company. Any reference in any security documents or arrangements (to which the Transferor Company is a party) to any Assets of the Transferor Company shall be so construed to the end and intent that such security shall not extend, nor be deemed to extend, to any of the other asset(s) of the Transferee



Company and the Transferee Company shall not be obliged to create any further or additional security. Similarly, the Transferee Company shall not be required to create any additional security over Assets of the Transferor Company vested in the Transferee Company under this Scheme for any loans, debentures, deposits or other financial assistance already availed by it and/or committed to be availed by it prior to the amalgamation and the charges, mortgages, and/or encumbrances in respect thereof shall not extend or be deemed to extend or apply to the Assets of the Transferor Company, as the case may be, vested in the Transferee Company under this Scheme.

- 4.2.3 Upon coming into effect of the Scheme, and in consideration for the transfer of and vesting of the assets and liabilities of the Transferor Company, the Transferee Company shall, without any further act or deed, issue and allot to the shareholders of the Transferor Company, 1 (One) fully paid up equity share of ₹10 each for every 72 (Seventy Two) fully paid-up equity share of ₹10 each held by the shareholders in the Transferor Company, whose name is appearing in the Register of Members of the Transferor Company on such date (hereinafter referred to as 'Record Date') as may be determined by the Board of Directors of the Transferee Company.

## 5 LIMITATIONS OF SCOPE AND REVIEW

- 5.1 Our Opinion and analysis is limited to the extent of review of documents as provided to us by the Transferor Company and Transferee Company and the Scheme of Amalgamation approved by the Board of Directors of the Transferor Company and Transferee Company.
- 5.2 We have relied upon the accuracy and completeness of all information and documents provided to us, without carrying out any due diligence or independent verification or validation of such information to establish its accuracy or sufficiency. We have not reviewed any financial forecasts relating to the Transferor Company and Transferee Company. We have not conducted any independent valuation or appraisal of any of the assets or liabilities of the Transferor Company and Transferee Company. In particular, we do not express any opinion as to the value of any asset of Transferor Company and Transferee Company, whether at current prices or in the future.
- 5.3 We do not express any opinion as to the price at which shares of Transferor Company and Transferee Company may trade at any time, including subsequent to the date of this opinion. In rendering our opinion, we have assumed, that the Scheme of Amalgamation will be implemented on the terms described therein, without any waiver or modification of any material terms or conditions, and that in the course of obtaining the necessary regulatory or third party approvals for the Scheme of Amalgamation, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on Transferor Company and Transferee Company and their respective shareholders.
- 5.4 We do not express any opinion as to any tax or other consequences that might arise from the Scheme of Amalgamation on Transferor Company and Transferee Company and their respective shareholders, nor does our opinion address any legal, tax, regulatory or accounting matters, as to which we understand that the Companies have obtained such advice as it deemed necessary from qualified professionals.
- 5.5 We assume no responsibility for updating or revising our opinion based on circumstances or events occurring after the date hereof. Our opinion is specific to the Merger of Transferor Company with Transferee Company as contemplated in the Scheme of Amalgamation provided to us and is not valid for any other purpose.





5.6 We may currently or in the future provide, investment banking services to Transferor Company and Transferee Company and/or its subsidiaries or their respective affiliates that are unrelated to the proposed Scheme of Amalgamation, for which services we have / may receive customary fees. In addition, in the ordinary course of their respective businesses, affiliates of KISL may actively trade in the securities of the Transferor Company or its group companies or for their own accounts and for the accounts of their customers and, accordingly, may at any time hold a position in such securities. Our engagement and the opinion expressed herein are for the use of the Board of Directors of Transferor Company in connection with the consideration of the Scheme of Amalgamation and for none other. Neither KISL, nor its affiliates, partners, directors, shareholders, managers, employees or agents of any of them, makes any representation or warranty, express or implied, as to the information and documents provided to us, based on which the opinion has been issued. All such parties and entities expressly disclaim any and all liability for, or based on or relating to any such information contained therein.

5.7 Our opinion is not intended to and does not constitute a recommendation to any shareholder as to how such holder should vote or act in connection with the Scheme of Amalgamation or any matter related thereto.

## 6. VALUATION REPORT

Transferor Company have appointed M/s. P. Chandrasekar LLP, Chartered Accountants to recommend a fair and equitable equity share entitlement ratio for the Merger.

The extract of the Valuation report issued by the Valuer is as follows:

**“One(1) equity share of The Sandur Manganese & Iron Ores Limited of Rs.10 each fully paid up for every Seventy Two (72) equity shares of Star Metallics and Power Private Limited of Rs.10 each fully paid up.”**

## 7. OPINION

On the basis of the Rationale of the Scheme of Amalgamation and considering the Scope and Limitations mentioned in this report, we are of the opinion that the Merger ratio is fair to the Equity Shareholders of the Transferor and Transferee Company.

For Karvy Investor Services Limited

  
T R Prashanth Kumar  
Whole Time Director & CEO

