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21 October 2020

The Board of Directors  
**Indo Count Industries Limited**  
Office No. 1, Plot No. 266  
Alte, Kumbhoj Road,  
Hatkanangale, Kolhapur  
Maharashtra – 416 109

**Sub: Fairness opinion on the fair exchange ratio recommended by A Z R & Associates, Chartered Accountants for the proposed merger of Pranavadiya Spinning Mills Limited into Indo Count Industries Limited**

Dear Sir/Madam,

We refer to the engagement letter dated 1 October 2020 with Ernst & Young Merchant Banking Services LLP (hereinafter referred to as "we" or "EY" or "us"), wherein Indo Count Industries Limited (hereinafter referred to as "you" or "Client" or "ICIL") has requested us to provide a fairness opinion on fair exchange ratio recommended by A Z R & Associates, Chartered Accountants ("Independent Valuer") as at 20 October 2020 ("Valuation Date") for the proposed merger of Pranavadiya Spinning Mills Limited ("PSML") into ICIL (together PSML and ICIL are referred to as "Companies").

**SCOPE AND PURPOSE OF THIS REPORT**

We understand that the Board of Directors of the Companies are evaluating the merger between the Companies ("Proposed Merger"), under a Scheme of Amalgamation, under Section 230 to 232 and other applicable provisions of the Companies Act, 2013 ("Scheme"). Under the Scheme, the Board of Directors of the Companies would merge PSML into ICIL.

As a consideration for this Proposed Merger, equity shareholders of PSML would be issued equity shares of ICIL in lieu of their shareholding in PSML.

In this connection, the Client has engaged EY to provide fairness opinion on share exchange ratio for the Proposed Merger as proposed by A Z R & Associates, Chartered Accountants for the Proposed Merger.



This fairness opinion report ("Report") is our deliverable in respect of the above engagement.

This Report is subject to the scope, assumptions, exclusions, limitations and disclaimers detailed hereinafter. As such the Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

This Report has been issued only for the purpose of facilitating the Proposed Merger and should not be used for any other purpose.

### **SOURCES OF INFORMATION**

In connection with this exercise, we have received the following information from the management of ICIL ("Management") / obtained from public domain:

- Draft and Final report from A Z R & Associates, Chartered Accountants, Independent Valuer titled "Recommendation of Fair Exchange Ratio for the proposed amalgamation of Pranavadiya Spinning Mills Limited into Indo Count Industries Limited" dated 20 October 2020 and 21 October 2020 respectively
- Draft Scheme of Arrangement for the Proposed Merger
- Annual report for years ended 31 March 2018 to 31 March 2020 for ICIL and PSML
- Unaudited consolidated financial statements of ICIL for quarter ended 30 June 2020
- Unaudited financial statements of PSML for half-year ended 30 September 2020
- Shareholding pattern as at 30 September 2020;
- Details of the industrial land of PSML situated at Hatkanangale, Village - Alte, Maharashtra.
- Fixed Assets Register of PSML as on 30 September 2020;
- Details of contingent liabilities as at 30 September 2020 and confirmation that there is no material change in contingent liabilities from 30 September 2020 till Report date for PSML;
- Background information provided through emails or during discussions.

We have also obtained further explanations and information considered reasonably necessary for our exercise, from the Management.



## PROCEDURES ADOPTED

In connection with this exercise, we have adopted the following procedures to carry out the valuation:

- Requested and received financial and qualitative information
- Obtained data available in public domain
- Discussions (over calls) 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 of the Companies
- Undertook Industry Analysis:
  - Research publicly available market data including economic factors and industry trends that may impact the valuation
  - Analysis of key trends and valuation multiples of comparable companies/comparable transactions using:
    - Proprietary databases subscribed by us
- Selection of internationally accepted valuation methodology/(ies) as considered appropriate by us
- We have had discussions with A Z R & Associates, Chartered Accountants, on such matters we believed were necessary or appropriate for the purpose of issuing this opinion





## STATEMENT OF LIMITING CONDITIONS

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

The user to which this fairness opinion is addressed should read the basis upon which the Report has been prepared and be aware of the potential for later variations in value due to factors that are unforeseen at the Valuation Date. Due to possible changes in market forces (including prevailing quoted prices) and circumstances, this opinion can only be regarded as relevant as at the Valuation Date.

This document has been prepared for the purposes stated herein and should not be relied upon for any other purpose. Our Report is restricted for the purpose indicated in the engagement letter. This restriction does not preclude the Client from providing a copy of the report to third-party advisors whose review would be consistent with the intended use. We do not take any responsibility for the unauthorized use of this Report.

While our work has involved an analysis of financial information and accounting records, our engagement does not include an audit in accordance with generally accepted auditing standards of the client existing business records. Accordingly, we express no audit opinion or any other form of assurance on this information.

The valuation has been performed on the provisional unaudited balance sheets of ICIL as of 30 June 2020 and PSML as of 30 September 2020 as provided by Management.

We have been informed that the business activities of Companies have been carried out in the normal and ordinary course between 30 September 2020 and the Report date and that no material changes have occurred in their respective operations and financial position between 30 September 2020 and the Report date.

The Client and its Management warranted to us that the information they supplied was complete, accurate and true and correct to the best of their knowledge. We have relied upon the representations of the Client, their Management and other third parties, if any, concerning the financial data, operational data and other information, except as specifically stated to the contrary in the report. We shall not be liable for any loss, damages, cost or expenses arising from fraudulent acts, misrepresentations, or wilful default on part of the companies, their directors, employee or agents.



Providing fairness opinion 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. In the ultimate analysis, our opinion will have to be tempered by the exercise of judicious discretion and judgment taking into accounts all the relevant factors. There is, therefore, no indisputable single equity share exchange ratio.

The final responsibility for the determination of the equity share exchange ratio at which the Proposed Merger shall take place will be with the Board of Directors of the Companies who should take into account other factors such as their own assessment of the Proposed Merger and input of other advisors.

We have assumed that the merger will be consummated on the terms set forth in the Scheme Document and that the final version of the Scheme Document will not change in any material respect from the draft version we have reviewed for the purpose of this opinion.

We have also relied on data from external sources to conclude the fairness opinion. These sources are believed to be reliable and therefore, we assume no liability for the truth or accuracy of any data, opinions or estimates furnished by others that have been used in this analysis. Where we have relied on data, opinions or estimates from external sources, reasonable care has been taken to ensure that such data has been correctly extracted from those sources and /or reproduced in its proper form and context.

EY is not aware of any contingency, commitment or material issue which could materially affect the Companies' economic environment and future performance and therefore, the fair value of the Companies.

The Report assumes that the Companies comply fully with relevant laws and regulations applicable in its area of operations and usage unless otherwise stated, and that the Companies will be managed in a competent and responsible manner. Further, as specifically stated to the contrary, this Report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigations and other contingent liabilities that are not recorded/reflected in the balance sheet/fixed assets register provided to us.

The Report does not address the relative merits of the Proposed Merger as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.

The fee for the Report 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 proposed Scheme of Amalgamation, without our prior written consent. In addition, this Report does not in any manner address the prices at which equity shares of the Companies will trade following announcement of the Proposed Merger 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 Proposed Merger.

The fairness opinion is governed by concept of materiality.

We owe responsibility only to the Board of Directors of the Client that has appointed us under the terms of the engagement letters. We will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions or advice given by any other person.

  
  
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## BACKGROUND

### Indo Count Industries Limited

ICIL manufactures and sells home textile products in India. ICIL also produces cotton yarns and bed linens. It exports its products to more than 50 countries in the world. It was founded in 1988 and is headquartered in Mumbai, India. The equity shares of ICIL are listed on National Stock Exchange of India Limited ("NSE") and BSE Limited ("BSE"). For the financial year ended 31 March 2020, ICIL reported consolidated revenues from operations of INR 20,801.3 million and consolidated profit after tax of INR 731.0 million.

The shareholding pattern is as follows:

| Shareholding Pattern as on 30 September 2020 | No of Shares       | % Shareholding |
|--|--------------------|----------------|
| Promoter & Group                             | 116,346,750        | 58.94%         |
| Public – Institutions                        | 17,148,816         | 8.69%          |
| Public – Non- Institutions                   | 63,904,104         | 32.37%         |
| <b>Grand Total</b>                           | <b>197,399,670</b> | <b>100.00%</b> |

Source: BSE filings

### Pranavaditya Spinning Mills Limited

PSML manufactures and sells cotton and synthetic yarns in India. PSML was incorporated in 1990 and is based in Mumbai, India. During the year, all the workers of PSML have availed for Voluntary Retirement Scheme/ Separation Scheme (VRS/SS) and currently the production in the factory has stopped. ICIL holds 74.53% stake in PSML and remaining is held by public shareholders. The equity shares of PSML are listed on BSE. For the financial year ended 31 March 2020, PSML reported revenues from operations of INR 694.1 million and net loss after tax of INR 26.8 million.

The shareholding pattern is as follows:

| Shareholding Pattern as on 30 September 2020 | No of Shares      | % Shareholding |
|--|-------------------|----------------|
| Promoter & Group                             | 14,341,280        | 74.53%         |
| Public – Non- Institutions                   | 4,900,000         | 25.47%         |
| <b>Grand Total</b>                           | <b>19,241,280</b> | <b>100.00%</b> |

Source: BSE filings





## APPROACH - BASIS OF DETERMINATION OF THE SHARE EXCHANGE RATIO FOR THE PROPOSED MERGER

The Independent Valuer has recommended the following share exchange ratio for the Proposed Merger:

- 2 (Two) equity shares of INR 2/- each fully paid up of ICIL for every 15 (Fifteen) equity shares of PSML of INR 10/- each fully paid up.

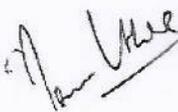
## OUR COMMENT ON THE INDEPENDENT VALUER'S REPORT

Based on our independent calculation and on consideration of all the relevant factors and circumstances, we believe that the share exchange ratio as recommended by the Independent Valuer, as stated above in our opinion is fair to the equity shareholders of ICIL.

It should be noted that we have examined only the fairness of the share exchange ratio for the Proposed Merger only for the Board of Directors/shareholders of ICIL and have not examined any other matter including economic rationale of the transfer per se or accounting and tax matters involved in the Proposed Merger.

Respectfully submitted,

**Ernst & Young Merchant Banking Services LLP**



**Navin Vohra**  
**Partner**

