ARIHANT Capital Markets Ltd.

# Fairness Opinion

**SCHEME OF MERGER**

**OF**

**PRECIOUS TRADING & INVSTMENTS LIMITED**
**(Transferor Company)**

**WITH**

**SHETH DEVELOPERS PRIVATE LIMITED**
**(Transferee Company)**

**Prepared by:**
**ARIHANT Capital Markets Limited**
**Merchant Banking Division**
**Mumbai**

**September 10, 2019**

The information contained herein is of a confidential nature and is intended for the exclusive use of the persons for whom it was prepared.

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## 1. Background

Precious Trading & Investments Limited ("PTIL" or Transferor Company") is a listed public limited company, incorporated under the provisions of the Companies Act, 1956, bearing corporate identity number L51900MH1983PLC029176, having its registered office at Ground and Third Floor, Prius Infinity, Paranjape B Scheme, Subhash Road, Vile Parle (East) Mumbai - 400057, Maharashtra. The Transferor Company was incorporated under the name and style of "Precious Trading & Investments Limited" on January 24, 1983. The name of the Transferor Company has remained unchanged since incorporation. The equity shares of the Transferor Company are listed on BSE Limited.

Sheth Developers Private Limited ("SDPL" or "Transferee Company") is a private limited company, incorporated under the provisions of the Companies Act, 1956, bearing corporate identity number U45200MH1993PTC070335, having its registered office at Ground and Third floor, Prius Infinity, Paranjape B Scheme, Subhash Road, Vile Parle (East), Mumbai - 400057, Maharashtra. The Transferee Company was originally incorporated as a public limited company under the name and style of "Sheth Developers Limited" on January 6, 1993, which later converted to a private company as "Sheth Developers Private Limited" vide fresh certificate of incorporation dated March 24, 2003 issued consequent to the conversion of the Transferee Company into a private limited company.

The Transferee Company and the Transferor Company are related parties as the Transferee Company is the promoter of Transferor Company and holds 74.99% equity shares of the Transferor Company.

Management of PTIL and SDPL have decided to enter into a scheme of Merger which provides for:

a) The merger of the Transferor Company with and into the Transferee Company pursuant to Section 230 read with Section 232 and other relevant provisions of the Act read with the Rules therein.
b) Issuance of redeemable preference shares of the Transferee Company to the equity shareholders of the Transferor Company except to the Transferee Company as per the terms set out under this Scheme
c) Dissolution without winding up of the Transferor Company.

The Board of directors of the Transferor Companies and the Transferee Company anticipate, *interalia*, the following benefits pursuant to the amalgamation of the Transferor Companies into the Transferee Company:

- The Transferor Company has been a loss-making entity and the Transferor Company's revenue for the year ending 31 March 2019 has been nil. On the other hand, the revenue generation of the Transferee Company has been positive and if these entities are merged as per the Scheme hereunder, the

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business of the Transferor Company can be run profitably by the Transferee Company.

- Further, since the year 2001, no business activity has been undertaken by the Transferor Company and also since incorporation, no trading activity has been undertaken on BSE by any of the Shareholders of the Transferor Company. Also, the liquidity of the Shareholders of the Transferor Company will not be affected since they will be issued preference shares of the Transferee Company and with this merger, the Transferor Company is unlocking the value of the shares for its Shareholders. Accordingly, if the Transferor Company is merged with the Transferee Company, there will not be any adverse effect on the Shareholders of the Transferor Company. The Scheme will not in any manner be prejudicial to the interest of the concerned shareholders, creditors, employee or key managerial personnel or any stakeholder or general public at large.

- The Transferor Company as on date is a non-operating company and the Transferee Company is an operating company. Accordingly, the merger of the non-operating Transferor Company with the operating Transferee Company, will make available the benefits of operating Transferee Company to the shareholders of the Transferor Company. Also, both the Transferor Company and the Transferee Company have the same key managerial personnel and accordingly the business of the Transferor Company can be merged with the Transferee Company conveniently and can be carried on in conjunction more advantageously and therefore no useful purpose is being served by operating two separate legal entities.

- In the above circumstance, the merger of the Transferor Company with the Transferee Company in accordance with this Scheme and the relevant provisions of the Act, read with the Rules would therefore enable the Parties to utilize the financial resources as well as the managerial, technical, distribution and marketing resources of each other and it would be beneficial for the effective management and controlled supervision of the Transferee Company, thereby protecting the interest of the Transferor Company.

- Further, the Transferor Company, as on date, owes a liability of only Rs. 23,300 and accordingly, if the Transferor Company is merged with the Transferee Company, the liability of the Transferee Company will increase negligibly and there will not be any adverse effect on the Transferee Company.

- Pursuant to the Scheme, the liabilities of the Transferor Company would be duly discharged by the Transferee Company;

- The Transferee Company will be able to ensure better turnover and profits and would ultimately contribute substantially to the future business

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expansion and will be able to exploit the market to the fullest possible extent;

- The merger will reduce compliance cost, for example, listing fees, audit fees, for the Transferor Company;
- significant reduction in the multiplicity of legal, regulatory reporting and compliances required at present;
- Simplification of corporate structure by reducing the number of legal entities and reorganizing the legal entities in the group structure;
- To consolidate business for cost control; and
- The Scheme will create enhanced value for shareholders and allow a focused growth strategy which would be in the best interests of all the stakeholders. The restructuring proposed by this Scheme will also provide flexibility to the investors to select investments which best suit their investment strategies and risk profile.

Towards this purpose, the Board of Directors of PTIL have provided us with a draft copy of the proposed scheme of Merger of PTIL and SDPL, which is scheduled to be considered and approved at PTIL's forthcoming Board meeting ("Scheme"). The proposed Scheme will also be placed at the meeting of the Board of Directors of the Transferee Company for its approval.

## 2. Reference & Context

As the equity shares of PTIL are listed on BSE, it is bound by the LODR Listing Obligations and Disclosure Requirements) Regulations 2015 and the provisions thereof as amended from time to time.

We, Arihant Capital Markets Ltd., have been appointed to issue a fairness opinion in terms of sub Para 8(b) of Para I(A) of Annexure I of the SEBI Circular No. CIR/CFD/CMD/16/2015 dated November 30, 2015 as amended by SEBI circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 and SEBI circular No. CFD/DIL3/CIR/2018/2 dated January 03, 2018 read with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 on valuation of assets done by independent Valuers for the Transferor Companies and Transferee Company pursuant to the proposed Scheme of Amalgamation.

We are a SEBI registered merchant banker and are not associates of PTIL and SDPL.

We have applied ourselves towards formation and expression of the opinion on the valuation of equity shares of PTIL and preference shares of SDPL done by the Registered valuer Mr. Paras K Savla ("Valuers") in relation to this proposed Scheme of Merger.

This Fairness Opinion is issued pursuant to our appointment as Merchant Bankers by SDPL for issuing the Fairness Opinion.

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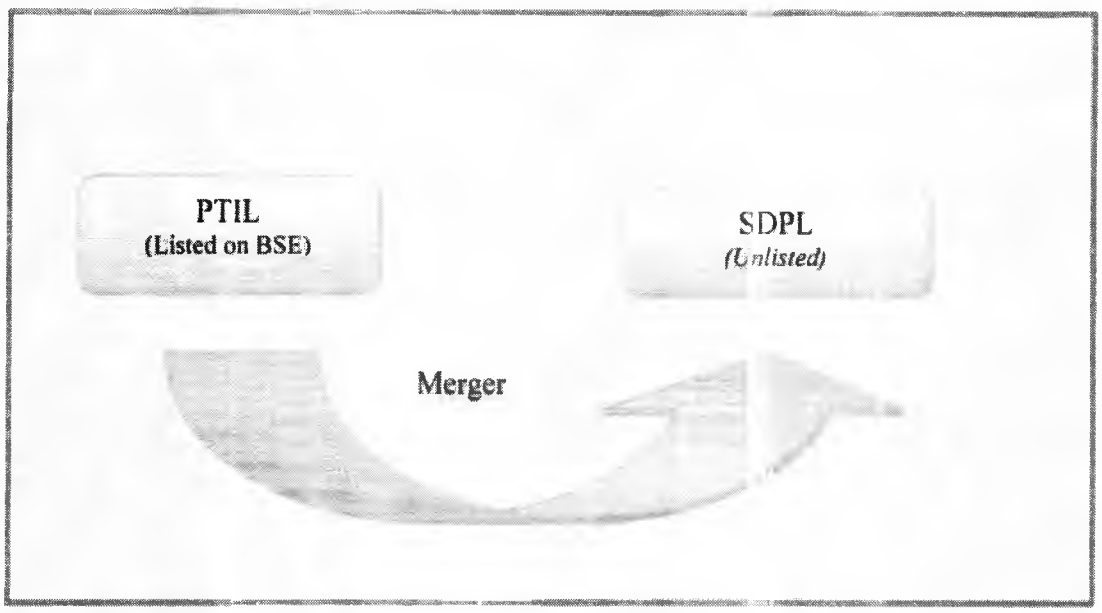
## 3. Proposed Transaction

PTIL will merge with SDPL through the proposed Scheme of Merger. Below mentioned structure is as per the proposed Scheme provided to us by PTIL.

In consideration of the merger of PTIL with and into SDPL, 10% Redeemable Cumulative Non-Participating Preference Shares of Rs 10/- each of SDPL would be issued to equity shareholders of PTIL, except SDPL, in exchange for its equity shares in PTIL.

Pursuant to the allotment of Preference shares under the scheme, there will be no change in the equity shareholding pattern of SDPL.

**Proposed Transaction**




## 4. Engagement Context

The management of SDPL has requested ARIHANT Capital Markets Limited ("ARIHANT" or "We / Us / Our") to express an opinion about fairness of the valuation done by the Valuers from a financial point of view in accordance with sub Para 8(b) of Para I(A) of Annexure I of the SEBI Circular No. CIR/CFD/CMD/16/2015 dated November 30, 2015 as amended by SEBI circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 and SEBI circular No. CFD/DIL3/CIR/2018/2 dated January 03, 2018 read with the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 to the Shareholders PTIL (the "Fairness Opinion").

This Fairness Opinion is expressed solely with reference to requirements under aforementioned purpose; and scope of this assignment is restricted to opine about fairness of valuation already done by the Valuers and recommendation of share exchange ratio in relation to the proposed Scheme.

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This opinion does not in any way constitute a recommendation by ARIHANT to any Shareholder as to whether such shareholder should approve or reject the proposed transaction, in cases where voting by public shareholders is warranted. We urge you to read this Fairness Opinion carefully and entirely.

We have been engaged by SDPL to issue a Fairness Opinion and will receive a fixed fee for rendering this Fairness Opinion, which is independent of the happening or otherwise of the proposed transaction.

This Fairness Opinion may be reproduced in the explanatory statement sent to the shareholders of PTIL along with the notice of general meeting / postal ballot form, conducted to get approval for the proposed transaction, so long as the form of reproduction of the Fairness Opinion in such report and any description of or reference in such report to ARIHANT, is in a form acceptable to us.

## 5. Basis of forming Opinion

### 5.1 Documents and Information Considered

For the purpose of providing our opinion, we have reviewed:

1. Certain publicly available business and financial information relating to SDPL and PTIL
2. Audited financials of SDPL and PTIL for the financial year ending March 31, 2019.
3. Certified draft of the proposed Scheme of Amalgamation to be approved by the Boards of Directors of the respective companies.
4. Undertakings / Management Representations issued by SDPL and PTIL in relation to valuation of respective companies.
5. Pre Scheme and Post Scheme Shareholding pattern of SDPL.
6. Copy of the valuation report of the Valuers Paras K Savla dated 7th September, 2019 recommending Fair Share Exchange ratio for the proposed scheme.
7. Performed such other reviews and analyses as ARIHANT, in its absolute discretion, deemed appropriate.

### 5.2 Assumptions and Limiting Conditions

ARIHANT has been engaged to provide standard services for the issuance of the Fairness Opinion and therefore have not performed any due diligence or audit of the information provided to us, nor have we made any independent valuation or appraisal of the assets or liabilities. PTIL has provided us with the copy of valuation report done by the Valuers and have asked us to peruse and opine on the said report. PTIL has

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confirmed that as the issuance of Fairness Opinion is in relation to proposed merger, the report may also be reproduced / quoted by us.

ARIHANT has assumed and relied upon the truth, accuracy and completeness of the information, data and financial terms provided to us by SDPL, PTIL or their authorized representatives or used by us, and has assumed that the same are factually correct and does not assume or accept any liability or responsibility for any independent verification or checking of such information or any independent valuation or appraisal of any of the assets, operations or liabilities of Transferor Company and Transferee Company.

In preparing this opinion, ARIHANT has received specific confirmation from management of SDPL and PTIL that all the information the Company has provided to ARIHANT in relation to the engagement of ARIHANT is correct and complete and no information has been withheld that could have influenced the purport of this Fairness Opinion.

This opinion exclusively focuses on the fairness, from a valuation point of view, of the shares / assets done by the Valuers and does not address any other issues such as the underlying business decision to recommend the transaction or its commercial merits, which are matters solely for the Boards of Directors of SDPL and PTIL to address and further to be confirmed by the shareholders of both the companies, as may be required.

ARIHANT's formation of fairness opinion is based on information supplied by SDPL and PTIL, representations and confirmations of its management on various issues and we have relied upon them as such without any independent verification and as such we do not hold ourselves liable if our opinion becomes flawed as a result of any shortcomings in such information, representations and confirmations given by SDPL and PTIL.

In rendering this opinion, ARIHANT has not provided legal, regulatory, tax, accounting or actuarial advice and accordingly ARIHANT does not assume any responsibility or liability in respect thereof. Furthermore, ARIHANT has assumed that the proposed transaction will be consummated on the terms and conditions as set out in the proposed Scheme of Amalgamation, without any material changes to, or waiver of, its terms or conditions.

## 6. Valuation Approaches and their Review

### 6.1. Overview

The formation of a fairness opinion is generally a complex process involving careful consideration and review of valuation methods, associated financial and other analyses performed by the Valuers. ARIHANT has made a qualitative assessment of the appropriateness of the method and subsequent application.

### 6. 2 Valuation

ARIHANT has reviewed the method of valuation adopted by the Valuers. The valuation analysis is focused on valuation of PTIL's equity shares and Preference shares of SDPL In the Present case, although the Transferor company (PTIL) is a listed

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entity, it is not frequently and actively traded in the open market. Hence, value per share of PTIL based on market price method is not considered. The management of PTIL is of the view that since PTIL is relatively non-operating company functioning mainly as an investment company, it is not possible to ascertain future cash flows. Hence, in absence of future cash flows, discounted cash flow approach of valuation is not adopted. PTIL's major assets comprise investment in the equity shares and preference shares of companies, hence the Net Asset Approach was considered appropriate for valuation of share of PTIL.

Their report states that Preference shares are proposed to be issued by the Transferee Company to the shareholders of Transferor Company as consideration for the proposed transfer of undertaking through scheme of merger. The report states that existing shareholding of Transferee Company in Transferor Company shall be cancelled and no shares will be issued to the extent of such holding.

SDPL will issue 10% Redeemable Cumulative Non-Participating Preference Shares of Rs 10/- each redeemable at par at the end of 15 years with early redemption window at the end of 5th and 10th Year *i.e.* Preference Shareholders will have a right requesting for early redemption on first come first basis, subject to 33.333% of the Issue size at the end of 5th year and 10th year. Hence the value of the new preference shares to be issued by SDPL is considered as Rs.10 per share.

**6.3 Analysis of the Valuation**

While forming our opinion, we performed certain procedures and made certain enquiries with PTIL / SDPL. Some of the procedures / activities performed and the findings are mentioned below:

- Noted that the scheme involves merger of PTIL with and into SDPL and upon implementation will lead to dissolution without winding up of the Transferor company.
- Noted that the appointed date for the proposed scheme of Amalgamation is April 01, 2019 and the valuation of PTIL is carried out based on financials of PTIL as on March 31, 2019.
- The equity shares of the Transferee company have not been traded since 2001. Also, the company has no income from operation in the current year and previous year and the management confirmed that it is not possible to ascertain future cash flows of Transferor company, Thus valuation of PTIL by using only Nest Asset Value method seems reasonable.
- The Revaluation of Investments of PTIL in SDRIL ("Sheth Developers and Realtors India Limited" - Associate company) is based on value as determined by "R V Shah and Associates Chartered Accountant" for the purpose of capital reduction under section 66 read with section 52 of Companies Act 2013. As the Value of investments in SDRIL is considered at the same value as considered under the scheme of Capital reduction pending before NCLT, the outcome of NCLT order will not impact the value of PTIL considered in this scheme of Merger.

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- The consideration of merger is settled through issuance of 10% Redeemable Cumulative Non-Participating Preference Shares of Rs 10/- each redeemable at par by SDPL to public shareholders of PTIL
- SDPL is an operating company with certain projects on hand currently and also has investments in other companies.
- The management has confirmed that the current net worth of the company and future positive cash flows from current projects on hand will provide sufficient liquidity for payment of preference dividend and Redemption of New Preference shares that are being issued as consideration to the public shareholders of Transferor company.

## 7. Opinion

Based upon and subject to the foregoing, we are of the opinion on the date hereof, that the valuation including the Exchange ratio of 1,231 (One Thousand two hundred and Thirty one) Preference shares of SDPL of Rs. 10/- (Rupees Ten Only) each fully paid up for every 1 (one) equity shares of PTIL of Rs. 10/- (Rupees Ten Only) each fully paid up as recommended by the Valuers for the proposed Scheme of Amalgamation is fair.

For **Arihant Capital Markets Limited**
**(Merchant Banking Division)**

**Authorized Signatory.**
**(SEBI REGN. No. INM 000011070)**

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# Addendum to Fairness Opinion

**SCHEME OF MERGER**

**OF**

**PRECIOUS TRADING & INVSTMENTS LIMITED**
**(Transferor Company)**

**WITH**

**SHETH DEVELOPERS PRIVATE LIMITED**
**(Transferee Company)**

**Prepared by:**
**ARIHANT Capital Markets Limited**
**Merchant Banking Division**
**Mumbai**

**September 26, 2019**

The information contained herein is of a confidential nature and is intended for the exclusive use of the persons for whom it was prepared.

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- ***Subject:***
  Addendum to Fairness Opinion dated September 10, 2019 in connection with proposed scheme of Merger between Precious Trading & Investments Limited (PTIL) and Sheth Developers Private Limited (SDPL) ("Fairness Opinion")

- ***Background:***

  - This Addendum is issued in relation to our report dated September 10, 2019 in connection with proposed scheme of Merger ("Scheme") between PTIL and SDPL ("Addendum")
  - We have been informed by the management of PTIL & SDPL that the scheme was filed with BSE Limited ("BSE") on September 18, 2019.
  - Pursuant to filing of Scheme, certain clarifications were sought by BSE with regard to Fairness Opinion and consequently this Addendum is issued.
  - This Addendum has to be read in continuance to and in conjunction with our Fairness Opinion and the Addendum carries no independent relevance

- ***Clarifications:***

  1) There has been absolutely no change in the valuation of securities of PTIL or SDPL as well as exchange ratio between the two.

  2) "10% Redeemable, Cumulative, Non participating Preference shares" wherever appearing the Fairness Opinion should be read as "10% redeemable, Cumulative, Non participating and Non-Convertible Preference shares".

  3) The Opinion Section to be read as follows "Based upon and subject to the foregoing, we are of the opinion on the date hereof, that the valuation including the Exchange ratio of 1231 (One Thousand Two hundred and thirty-one) 10% Redeemable, Cumulative, Non participating and Non-Convertible Preference shares of INR 10 each fully paid up for every 1 (One) equity share of Precious Trading and Investments Limited of INR 10 each fully paid up, as recommended by the Valuers for the proposed Scheme of Amalgamation is fair."

  4) The Addendum issued by the Valuer dated 25th September 2019 has no effect on the valuation of Equity shares of PTIL and on the Valuation of 10% Redeemable, Cumulative, Non participating and Non-Convertible Preference shares of INR 10 each. Also the Share exchange ratio determined earlier remains unchanged and is as follows "1231 10% Redeemable, Cumulative, Non participating and Non-Convertible Preference shares of Sheth Developer Private Limited of INR 10 each fully paid up for every 1 equity share of Precious Trading and Investments Limited of INR 10 each fully paid up".

We reaffirm the Opinion issued vide our report dated September 10, 2019.

For Arihant Capital Markets Limited
(Merchant Banking Division)

Authorized Signatory.
(SEBI REGN. No. INM 000011070)

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