Project Vanilla

Security cover

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Audit Committee / Board of Directors
Vardhman Textiles Limited
Vardhman Premises, Chandigarh Road,
Ludhiana- 141010

Audit Committee / Board of Directors
Vardhman Acrylics Limited
Vardhman Premises, Chandigarh Road,
Ludhiana- 141010

09 August 2019

Sub: Recommendation of Equity Share Exchange Ratio for the proposed amalgamation of Vardhman Acrylics Limited with Vardhman Textiles Limited by B S R & Associates LLP

Dear Sirs,

We refer to the engagement letter dated 18 July 2019 with B S R & Associates LLP (hereinafter referred to as "B S R" or "us" or "we") wherein Vardhman Textiles Limited ("VTXL") and Vardhman Acrylics Limited ("VAL") (collectively referred to as the "Clients", "Specified Companies", or "You") have requested B S R to recommend a equity share exchange ratio in connection with the proposed amalgamation of VAL with VTXL ("Proposed Amalgamation").

SCOPE AND PURPOSE OF THE VALUATION REPORT

We understand that the Audit Committee / Board of Directors of the Specified Companies propose to amalgamate VAL with VTXL wherein, as consideration for their equity shares in VAL, the shareholders of VAL will be issued equity shares of VTXL. The Appointed Date for the Proposed Amalgamation is 01 April 2020. This is proposed to be achieved by way of a Composite Scheme of Arrangement ("Scheme") under Sections 230 to 232 and other relevant provisions of The Companies Act, 2013. The Scheme is presented for the following:

(i) amalgamation of VMT Spinning Company Limited ("Transferor Company 1") with and into Vardhman Textiles Limited ("Transferee Company" or "VTXL");

(ii) amalgamation of VTL Investments Limited ("Transferor Company 2") with and into the Transferee Company;

(iii) amalgamation of Vardhman Nisshinbo Garments Company Limited ("Transferor Company 3") with and into the Transferee Company;

(iv) amalgamation of Vardhman Acrylics Limited ("Transferor Company 4" or "VAL") with and into the Transferee Company;

(v) transfer of the authorized share capital from each of the Transferor Companies to the Transferee Company; and

(vi) dissolution without winding up of the each of the Transferor Companies

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- Such other analysis, review and enquires, as we considered necessary.
- Other financial and non-financial information, which may have not been required or used for preparing this Valuation Report

The Clients have been provided with the opportunity to review the draft report (excluding the recommended Equity Share Exchange ratio) as part of our standard practice to make sure that factual inaccuracies/ omissions are avoided in our final report.

SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS

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

This Valuation Report, its contents and the results herein are specific to (i) the purpose of valuation agreed as per the terms of our engagement; (ii) the date of the Valuation Report; (iii) based on the financial statements of the Specified Companies as on 31 March 2019 ("Period end Balance Sheet"); and (iv) other information provided by the Management or taken from public sources till 02 August 2019.

A valuation of this nature is necessarily based on (a) prevailing stock market, financial, economic and other conditions in general and industry trends in particular as in effect on and (b) the information made available to us as of, the date hereof. Events occurring after the date hereof may affect this Valuation Report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this Valuation Report.

The recommendation(s) rendered in this Valuation Report only represent our recommendation(s) based upon information received from the Specified Companies till 02 August 2019 and other sources and the said recommendation(s) shall be considered to be in the nature of non-binding advice, (our recommendation will however not be used for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors). Further, the determination of Equity Share Exchange Ratio 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 judgment. There is, therefore, no indisputable single Equity Share Exchange Ratio. While we have provided our recommendation of the Equity 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 as to the Equity Share Exchange Ratio. You acknowledge and agree that you have the final responsibility for the determination of the Equity Share Exchange Ratio at which the Proposed Amalgamation shall take place and factors other than our Valuation Report will need to be taken into account in determining the Equity Share Exchange Ratio; these will include your own assessment of the Proposed Amalgamation and may include the input of other professional advisors.

During the course of the engagement, we were provided with both written and verbal information/guidance, including market, technical, financial and operating data. In accordance with the terms of our engagement, we have assumed and relied upon, without independent verification, (i) the accuracy of the information that was publicly available and formed a substantial basis for this Valuation Report and (ii) the accuracy of information made available to us by the Specified Companies. We have not carried out a due diligence or audit of the Specified Companies 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 Amalgamation. We do not express any form of assurance that the financial information or other information as prepared and provided by the Specified Companies is accurate. Also, with respect to explanations and information sought from the Specified Companies, we have been given to understand by the Specified Companies

Lodha Excelus, N.M. Joshi Marg, Mahalaxmi, Mumbai-400 011 India. Chartered Accountants 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 Specified Companies. The Management has indicated to us that it has understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis/results. Accordingly, we assume no responsibility for any errors in the information furnished by the Specified Companies and its impact on the Valuation Report. Also, we assume no responsibility for technical information (if any) furnished by the Specified Companies. However nothing has come to our attention to indicate that the information provided was materially mis-stated/ incorrect or would not afford reasonable grounds upon which to base the Valuation 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.

In no event shall we be liable for any loss, damages, cost or expenses arising in any way from fraudulent acts, misrepresentations or willful default on part of the Specified Companies, their directors, employees or agents. In no circumstances shall the liability of a B S R, its partners, its directors or employees, relating to the services provided in connection with the engagement set out in the Valuation Report shall exceed the amount paid to B S R in respect of the fees charged by it for these services.

The Valuation Report assumes that the Specified Companies comply fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the Specified Companies will be managed in a competent and responsible manner. Further, except as specifically stated to the contrary, the Valuation Report has given no consideration 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 recorded in Period end Balance Sheets of the Specified Companies. Our conclusion of value assumes that the assets and liabilities of the Specified Companies, reflected in their respective latest balance sheets remain intact as of the Valuation Report date.

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

No investigation of the Specified Companies claim to title of assets has been made for the purpose of the Valuation Report and the Specified Companies claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature.

The fee for the Engagement is not contingent upon the results of the Valuation Report.

We owe responsibility to only the Audit Committee / Board of Directors of the Specified Companies which have retained us, and nobody else. We will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions of the other. We do not accept any liability to any third party in relation to the issue of the Valuation Report. The Valuation Report is not a substitute for the third party's own due diligence/ appraisal/ enquiries/ independent advice that the third party should undertake for his purpose. It is understood that this analysis does not represent a fairness opinion.

The Valuation Report is subject to the laws of India.

Neither the Valuation Report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement. Further, it cannot be used for purpose other than in connection with the Proposed Amalgamation, without out prior consent. In addition, the Valuation Report does not in any manner address the prices at which equity shares will trade following consummation of the Proposed Amalgamation 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 Amalgamation.

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BACKGROUND OF THE SPECIFIED COMPANIES

Vardhman Textiles Limited

Vardhman Textiles Limited, formerly Mahavir Spinning Mills Limited, is a public listed company incorporated on 08 October 1973 and based out of Ludhiana. VTXL is a textile company which is engaged in the business of manufacturing cotton yarn, synthetic yarn and woven fabrics.

The shareholding pattern of VTXL as at 30 June 2019 is as follows:

Category	Shares outstanding	Shareholding %
Promoters and Promoter Group	35,730,925	61.60%
Non Institutions	21,761,635	37.52%
Outstanding shares as at 30 June 2019	**57,492,560**	
Add: Outstanding ESOPs	512,950	0.88%
Total fully diluted shares	**58,005,510**	**100.0%**

Source: National Stock Exchange

Vardhman Acrylics Limited

Vardhman Acrylics Limited, incorporated on 24 December, 1999 is a public listed company based in Ludhiana, India. VAL manufactures and supplies acrylic fiber and tow in India and is a subsidiary of Vardhman Textiles Limited. VTXL holds 70.74 per cent stake in VAL. The company has set up an 18000 TPA acrylic staple fibre and tow production plant at Jhagadia, Gujarat, India. The company markets its products under the VARLAN brand name.

The shareholding pattern of VAL as at 30 June 2019 is as follows:

Category	Shares outstanding	Shareholding %
Promoters and Promoter Group	60,249,160	74.97%
Non Institutions	20,114,586	25.03%
Total	**80,363,746**	**100.0%**

Source: National Stock Exchange

APPROACH - BASIS OF AMALGAMATION

The Proposed Amalgamation contemplates the amalgamation of VAL with VTXL pursuant to the Scheme.

Arriving at the Equity Share Exchange Ratio for the Proposed Amalgamation would require determining the value of the equity shares of VAL in terms of the value of the equity shares of VTXL. These values are to be determined independently but on a relative basis, and without considering the Proposed Amalgamation.

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There are several commonly used and accepted methods for determining the value of the equity shares of a company, which have been considered in the present case, to the extent relevant and applicable, including:

1. Discounted Cash Flows method ("DCF")
2. Comparable Companies' Multiples method ("CoCo")
3. Net Asset Value method ("NAV")
4. Market Price method

It should be understood that the valuation of any company or its assets is inherently imprecise and is subject to certain uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In performing our analysis, we made numerous assumptions with respect to industry performance and general business and economic conditions, many of which are beyond the control of the Specified Companies. In addition, this valuation will fluctuate with changes in prevailing market conditions, the conditions and prospects, financial and otherwise, of the Specified Companies, and other factors which generally influence the valuation of companies and their assets.

The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values may exist for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. Our choice of methodology of valuation has been arrived at using usual and conventional methodologies adopted for Proposed Amalgamation of a similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignments of a similar nature.

Discounted Cash Flows ("DCF") Method

Under the DCF method, the projected free cash flows to the firm are discounted at the weighted average cost of capital. The sum of the discounted value of such free cash flows is the value of the firm.

Using the DCF analysis involves determining the following:

Estimating future free cash flows:

Free cash flows are the cash flows expected to be generated by the company that are available to all providers of the company's capital – both debt and equity.

Appropriate discount rate to be applied to cash flows i.e. the cost of capital.

This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and lenders), weighted by their relative contribution to the total capital of the company. The opportunity cost to the equity capital provider equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

To the values so obtained generally from DCF analysis, the amount of loans is adjusted to arrive at the total value available to the equity shareholders. The total value for equity shareholders is then divided by the total number of equity shares in order to work out the value per equity share.

For our valuation analysis, we have applied the DCF method using the forecast free cash flow of VAL and VTXL, based on Management Business Plans as provided by the management of VAL and VTXL.

Although we will read, analyse and discuss the Management Business Plans for the purpose of undertaking a valuation analysis, we will not comment on the achievability of the assumptions provided to us save for satisfying ourselves to the extent possible that they are consistent with other information provided to us in the course of the assignment. We will assess and evaluate the reasonableness of the projections based on procedures such as analysing industry data, analysing historical performance, analysing expectations of comparable companies, analyst reports etc.

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We must emphasize that realizations of free cash flow forecast will be dependent on the continuing validity of assumptions on which they are based. Our analysis, therefore, will not, and cannot be directed to providing any assurance about the achievability of the final projections. Since the financial forecasts relate to future, actual results are likely to be different from the projected results because events and circumstances do not occur as expected, and the differences may be material.

While carrying out this engagement, we have relied extensively on historical information made available to us by the Management and the Management Business Plans for future related information. We did not carry out any validation procedures or due diligence with respect to the information provided/ extracted or carry out any verification of the assets or comment on the achievability and reasonableness of the assumptions underlying the Management Business Plan of VAL and the Management Business Plan of VTXL, save for satisfying ourselves to the extent possible that they are consistent with other information provided to us in the course of this engagement.

Comparable Companies' Method ("CoCo")

Under this method, value of the equity shares of a company is arrived at by using multiples derived from valuations of comparable companies as manifest through stock market valuations of listed companies.This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

For our analysis, we have used the median EV/EBITDA multiple of comparable companies to both VAL and VTXL which are listed on stock exchanges.

Net Asset Value (NAV) Method

The asset based valuation technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. A scheme of amalgamation would normally be proceeded with, on the assumption that the companies amalgamate as going concerns and an actual realization of the operating assets is not contemplated. In such a going concern scenario, the relative earning power is of importance to the basis of amalgamation, with the values arrived at on the net asset basis being of limited relevance. This valuation approach is mainly used in case where the firm is to be liquidated i.e. it does not meet the "going concern" criteria or in case where the assets base dominate earnings capability.

For our analysis, we have not considered this method for valuation of VAL and VTXL as both companies are going concern and asset base do not dominate earnings capability.

Market Price Method

The market price of an equity share as quoted on a stock exchange is normally considered as the value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded in. Further, in the case of an amalgamation, where there is a question of evaluating the shares of one company against those of another, the volume of transactions and the number of shares available for trading on the stock exchange over a reasonable period would have to be of a comparable standard.

In the present case, the shares of VTXL are listed on Bombay Stock Exchange (BSE) and National Stock Exchange NSE and the shares of VAL are listed on NSE.

According to Clause 164 (1) of Securities And Exchange Board Of India (Issue Of Capital And Disclosure Requirements) Regulations dated 11 September 2018, in case of frequently traded shares,

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"if the equity shares of the issuer have been listed on a recognised stock exchange for a period of twenty six weeks or more as on the relevant date, the price of the equity shares to be allotted pursuant to the preferential issue shall be not less than higher of the following:

a) the average of the weekly high and low of the volume weighted average price of the related equity shares quoted on the recognised stock exchange during the twenty six weeks preceding the relevant date; or

b) the average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on a recognised stock exchange during the two weeks preceding the relevant date."

We have computed equity value per share of VTXL and VAL in accordance with the above clause. Our concluded equity value per share for VTXL and VAL are respectively higher than the equity value per share for VTXL and VAL arrived at using the methods in above clause.

According to the SEBI (Substantial Acquisition Of Shares And Takeovers) Regulations dated 23 September 2011,

"frequently traded shares" is defined as shares of a target company, in which the traded turnover on any stock exchange during the twelve calendar months preceding the calendar month in which the public announcement is at least ten per cent of the total number of shares of such class of the target company."

In accordance with the above definition, shares of VTXL and VAL are not frequently traded.

According to Clause 165 of Securities And Exchange Board Of India (Issue Of Capital And Disclosure Requirements) Regulations dated 11 September 2018,

"where the shares of an issuer are not frequently traded, the price determined by the issuer shall take into account the valuation parameters including book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such companies."

Hence, for our analysis, we have not assigned weightage to the Market Price Method.

BASIS OF AMALGAMATION

The basis of amalgamation of VAL into VTXL would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove. Though different values have been arrived at under each of the above methodologies, for the purposes of recommending a Equity Share Exchange Ratio it is necessary to arrive at a single value for the equity shares of VAL and of VTXL. For this purpose, it is necessary to give appropriate weights to the values arrived at under each methodology.

We have assigned appropriate weightages to the value per equity share of VAL and VTXL, arrived using the DCF method and Comparable Companies' Multiples Method, to value the equity shares of VAL and VTXL.

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The below table summarizes our approaches and weights assigned:

Method	**VAL**		**VTXL**	
Particulars	**Value per share (INR)**	**Weight**	**Value per share (INR)**	**Weight**
Income Approach				
Discounted Cash Flows	58.9	50%	1418.6	50%
Market Approach				
Comparable Companies	52.8	50%	1269.1	50%
Market Price	41.1	0%	1062.2	0%
Cost Approach				
Net Asset Value	41.2	0%	878.2	0%
Weighted Average Value per Share	**55.8**		**1343.8**	
Equity Share Exchange Ratio	**24.1**			

Based on the factors discussed and outlined above, we hereby recommend the following Equity Share Exchange Ratios for the purpose of the amalgamation of VAL with VTXL

For every 24.1 (Twenty Four *point* one) equity shares of VAL of the face value of INR 10 (Indian Rupees Ten) each fully paid up held by the shareholders of the VAL on the Record Date, 1 (One) equity share of VTXL of INR 10 (Indian Rupees Ten) each fully paid up will be issued.

For the purpose of arriving at Equity Share Exchange Ratio the outstanding equity shares of VAL and VTXL has been calculated on a fully diluted basis (considering the conversion of ESOPs, vested plus granted).

Respectfully submitted.

For B S R & Associates LLP

Chartered Accountants

Firm Registration No: 116231W

Mahek Vikamsey UDIN- 19108235AAAAAJ7905

Partner

Membership No: 108235

Dated: 09 August 2019

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