

Strictly Private & Confidential

October 03, 2020

To
The Board of Directors,
Srikalahasthi Pipes Limited,
Rachagunneri Village, Srikalahasthi Mandal,
Chittoor District, Andhra Pradesh-517641.

Sub: Fairness Opinion on the Recommendation of Share Exchange Ratio for the proposed amalgamation of Srikalahasthi Pipes Limited into and with Electrosteel Castings Limited

Dear Sir/ Madam,

We refer to our engagement letter whereby Ashika Capital Limited (hereinafter referred to as “we” or “ACL”) was appointed by Srikalahasthi Pipes Limited (hereinafter referred to as “SPL” or the “Company”) to provide a fairness opinion on the recommendation of the Share Exchange Ratio for the proposed amalgamation of SPL into and with Electrosteel Castings Limited (hereinafter referred to as “ECL”).

1. Scope and Purpose:

We understand that the Board of Directors of SPL and ECL are contemplating to amalgamate SPL into and with ECL (“**Proposed Amalgamation**”). The proposed amalgamation is to be carried out pursuant to a Scheme of Amalgamation (“**Scheme**”) pursuant to the provisions of Section 230 to 232 and other applicable provisions of the Companies Act 2013 (including any statutory modifications, re-enactments or amendments thereof) and other applicable securities and capital market laws and rules issued thereunder to the extent applicable.



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We understand from the management of SPL that, pursuant to the proposed amalgamation, the equity shareholders of SPL will be issued equity shares in ECL as consideration for their respective shareholding in SPL. The terms and conditions of the proposed amalgamation are more fully set out in Draft Scheme of Amalgamation (“**Draft Scheme Document**”) shared with us, the final version of which will be filed by the aforementioned companies with the appropriate authorities.

We further understand that the share exchange ratio for the proposed amalgamation has been arrived at based on a joint report dated October 03, 2020 (“**Valuation Report**”) being issued by R.V. Shah & Associates, Chartered Accountants [Firm Registration No. 133958W] (herein referred to as “**RVS**”), engaged by ECL and M/s Sharp & Tannan, Chartered Accountant [Firm Registration No. 109982W] (herein referred to as the “**S&T**”), engaged by SPL. S&T and RVS are herein jointly referred to as “**Valuers**”.

Based on our perusal of the Valuation Report, we understand that it has been proposed that pursuant to the amalgamation of SPL into and with ECL, equity shareholders of SPL shall be issued 59 (*fifty nine*) fully paid equity shares of ECL of face value INR 1/- each for every 10 (*ten*) fully paid equity shares of SPL of face value INR 10/- each (hereinafter referred to as the “**Share Exchange Ratio**”).

In connection with the aforesaid, you requested our opinion (“**Opinion**”), as of the date hereof, as to the fairness of the share exchange ratio, as proposed by the Valuers, from a financial point of view, to the shareholders of SPL.

2. Sources of Information:

In connection with this Opinion, we have:

- (i) reviewed the management certified copy of Draft Scheme Document and the Valuation Report;

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- (ii) reviewed certain publicly available historical and operational information with respect to each of the relevant entities available in their respective annual & interim reports and Company presentations;
- (iii) reviewed certain historical business and financial information relating to each of the relevant entities, as provided by the Company, and sought certain clarifications with respect to the same;
- (iv) considered publicly available research on the Company and ECL as available with us as at the date hereof;
- (v) Shareholding Pattern of the Company and ECL as on September 30, 2020;
- (vi) Brief Overview of the Company and ECL and its past & current operations;
- (vii) held discussions with the Valuers, in relation to the approach taken to valuation and the details of the various methodologies utilised by them in preparing the valuation report and recommendations;
- (viii) sought various clarifications from the respective senior management teams of the relevant companies;
- (ix) sought Management Representation dated October 01, 2020 obtained by the Valuers containing various data, documents and information relating to the Company and ECL, which is relevant for the present valuation;
- (x) reviewed historical stock prices and trading volumes of the Company's and ECL shares on BSE & NSE
- (xi) reviewed published & secondary sources of data, whether or not made available by the Companies; and
- (xii) performed such other financial analysis and considered such other information and factors as we deemed appropriate.



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3. **Basis of Opinion:**

The rationale for the Scheme as shared with us by the Company's management is based on inter-alia the following benefits:

- The proposed amalgamation will enable the Companies to streamline their business activities into a single combined entity, thereby resulting in economies of scale and avoidance of undue duplication in work, reduction in common expenditure otherwise incurred by the two entities within common group, better and more productive utilization of financial, human and other resource and enhancement of overall business efficiency;
- The amalgamation will result in consolidation of the businesses of the parties resulting in expansion of the consolidated business both domestically and internationally, significant reduction in multiplicity of legal and regulatory compliances which at present is required to be made separately by the Companies, simplification of the group structure and management structure with only one listed company in group leading to better administration and reduction in administrative and other costs;
- The parties expect significant synergies through operational improvements, value optimisation, scale efficiencies and improvement in credit rating;
- The Scheme is expected to be in the best interests of the shareholders, and all other stakeholders;

Some key details related to SPL and ECL are as under:

Srikalahasthi Pipes Limited ("**Transferor Company**") (CIN: L74999AP1991PLC013391) is a public company, limited by shares, incorporated on November 01, 1991 under the provisions of the Companies Act, 1956, having its registered office in Rachgunneri Village, Srikalahasthi Mandal, Chittoor District, Andhra Pradesh-517641. SPL was formerly known as "Lanco Industries Limited". ECL holds 1,93,01,218 fully paid up equity shares having face value of INR 10 each of SPL amounting to 41.33% of the total equity share capital of SPL as on September 30, 2020. ECL and SPL are under control of common promoter group. ECL along with its promoter group of companies are in the position to and do exercise control over SPL.

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The equity shares of SPL are listed on the BSE Limited (“**BSE**”) and the National Stock Exchange of India Limited (“**NSE**”).

SPL is one of the leading players in the DI pipe industry in India with plant located at Rachgunneri Village, Srikalahasthi Mandal, Chittoor District, Andhra Pradesh near Tirupati and its key projects include DI pipes, Pig Iron, Coke and Cement. SPL has a backward integrated manufacturing facility which includes a sinter plant, coke oven plant, and power plant and Sewage Treatment facilities in the same complex spread over 330 acres, giving the company a significant competitive advantage. The Company supplies DI pipes to various Water Boards, Municipal Corporations and Turnkey Contractors across the country for their Water Infrastructure Projects which is the thrust area of the Government of India.

The shareholding pattern of SPL as on September 30, 2020 is as follows:

Sl. No.	Category	No. of Shares	% Holding
a.	Promoter & Promoter Group	2,24,83,513	48.15%
b.	Public	2,42,14,894	51.85%
Total		4,66,98,407	100.00%

Electrosteel Castings Limited (“**Transferee Company**”) (CIN: L27310OR1955PLC000310) is a public company, limited by shares, incorporated under the Indian Companies Act, 1913 on November 26, 1955 and having registered office at Rathod Colony, Rajgangpur, District: Sundergarh, Odisha 770 017. ECL was formerly known as "Dalmia Iron and Steel Limited". The equity shares of ECL are listed on the BSE Limited (“**BSE**”) and the National Stock Exchange of India Limited (“**NSE**”).

ECL is engaged in the manufacture and supply of Ductile Iron (DI) Pipes, Ductile Iron Fittings (DIF) and Cast iron (CI) Pipes as its core business and produces and supplies Pig Iron, in the process. It also produces Metallurgic Coke, Sinter and Power for captive consumption. The Company caters to the needs of Water Infrastructure Development. The Company is the first to set up a Ductile Iron Pipe Plant in India. Today, it is India’s leading pipeline solution

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provider. It has a strong brand presence around the Globe. The Company is distinct choice for water engineers and domain experts in Ductile Iron Pipes and Fittings. ECL has overseas subsidiaries which are primarily engaged in the business of trading of DI Pipes and Fittings.

The shareholding pattern of ECL as on September 30, 2020 is as follows:

Sl. No.	Category	No. of Shares	% Holding
a.	Promoter & Promoter Group	23,89,57,776	55.19%
b.	Public	19,39,96,933	44.81%
Total		43,29,54709	100.00%

The key features of the Scheme provided to us through the Draft Scheme Document are as under:

1. As consideration for the amalgamation of SPL into and with ECL, ECL shall issue equity shares to the equity shareholders of SPL proportionate to their holdings in SPL;
2. ECL shares to be issued and allotted by ECL in terms of the Scheme shall be subject to the provisions of the memorandum and articles of association of ECL and shall rank *pari passu* in all respects and shall have the same rights attached to the then existing shares of ECL;
3. Upon the coming into effect of the Scheme, SPL shall, without any further act, instrument or deed, stand dissolved without winding-up;
4. Upon the Scheme becoming effective, the authorized share capital of SPL as on the Effective Date shall get combined with the authorized share capital of ECL. Immediately thereafter, as an integral part of this Scheme, the authorized share capital of SPL comprising of equity shares of face value of Rs 10 each, shall split and deemed to be reclassified in ECL as equity share of face value of Rs 1 each of ECL.

We have relied on the Draft Scheme Document and taken the abovementioned key features of the Scheme (together with other facts and assumptions set forth in this Opinion) into account while determining the meaning of “fairness”, from a financial point of view, for the purposes of this Opinion.


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4. Exclusions and Limitations:

Our Opinion and analysis is limited to the extent of review of documents as provided to us by SPL and ECL including the valuation report prepared by the Valuers and the Draft Scheme Document.

We have assumed and relied upon the accuracy and completeness of all information and documents provided to us, data publicly available or otherwise reviewed by or discussed with us. We have relied upon the SPL's and ECL's assurance that they are not aware of any facts or circumstances that would make such information or data incomplete, inaccurate or misleading in any material respect.

We have not carried out any due diligence or independent verification or validation of such information to establish its accuracy or sufficiency. We have not conducted any independent valuation or appraisal of any of the assets or liabilities of SPL and ECL, and / or their subsidiaries/affiliates. In particular, we do not express any opinion as to the value of any asset of SPL & ECL, and / or their subsidiaries/affiliates, whether at current time or in the future. No investigation of SPL's and ECL's claim to title of assets has been made for the purpose of the exercise and the claim to such rights has been assumed to be fully valid.

We have reviewed the methodologies as adopted by the Valuers for arriving at the fair valuation of the equity shares of SPL & ECL and also reviewed the working and underlining assumptions adopted to arrive at the values under the approach, for determining their respective per share value and to recommend the Share Exchange Ratio.

One should note that valuation is not an exact science and that estimating values necessarily involves selecting a method or approach that is suitable for the purpose. Moreover, in this case where equity shares of ECL are being issued as consideration to the shareholders of SPL, it is not the absolute per share value that is important for framing an opinion but the relative per share value of ECL vis-à-vis per share value of SPL.



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We have assumed, with the Company's consent that the Scheme will be in compliance with all applicable laws and other requirements and will be implemented on the terms described in the Draft Scheme Document, 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, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on the Company, ECL and / or their relevant subsidiaries/ affiliates and their respective shareholders. We have assumed, at the directions of the Company that the final Scheme will not differ in any material respect from the Draft Scheme Document. We understand from the Company's management that the Scheme will be given effect to in totality and not in parts.

We express no view or opinion as to any terms or other aspects of the Scheme (other than the Share Exchange Ratio, from a financial point of view) including, without limitation, the form or structure of the proposed transaction. We were not requested to, and we did not, participate in the negotiations for the proposed transaction. Our Opinion is limited to the fairness, from a financial point of view, of the share exchange ratio proposed by the Valuers, to the shareholders of SPL. Our analysis relates to the relative values of the SPL and ECL. However, the actual transaction value may be significantly different from the result of our analysis and would depend on a number of factors, including the negotiating ability and motivations of the respective buyer and seller. We express no opinion or view with respect to the financial implications of the proposed transaction for any stakeholders, including creditors of the Company.

We express no view as to, and our Opinion does not address, the underlying business decision of the Company to effect the proposed transaction, the relative merits of the proposed transaction as compared to any other alternative business strategy, the effect of the proposed transaction on the Company or its affiliates, including, without limitation, possible implications on ownership structure, listing format, capital structure or trading price of ECL's shares post completion of the proposed transaction. The Company remains solely responsible for the commercial assumptions on the basis of which it agrees to proceed with the proposed transaction. Our Opinion is necessarily based only upon information as referred to in this letter.

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We have relied solely on representations, whether verbal or otherwise, made by the management of the Company and ECL, for areas where the same has been made.

We do not express any Opinion as to any tax or other consequences that might arise from the Scheme on the Company, ECL and / or their subsidiaries/affiliates, and their respective shareholders, nor does our Opinion address any legal, tax, accounting or structural matters as to which we understand that the respective companies have obtained such advice as they deemed necessary from qualified professionals. We have undertaken no independent analysis of any potential or actual litigation, regulatory action, possible unasserted claims, Governmental investigation or other contingent liabilities to which the Company, ECL and/or their subsidiaries/affiliates, are/or may be a party.

Our Opinion is necessarily based on financial, economic, monetary, market and other conditions as in effect on, and the information made available to us as of, the date hereof.

The COVID-19 (SARS-CoV-2) ("**Covid**") is presenting potentially significant impact upon economic activity and certain businesses. We understand that business plan provided by the Management captures their best judgement assessment / impact of Covid on the business.

The opinion rendered in this report only represents the opinion of Ashika Capital Limited based upon information furnished by the Management and other sources and the said opinion shall be considered advisory in nature.

The financial forecasts used in the preparation of the Report reflects Management's judgment, based on present circumstances, as to the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the forecast period will almost always differ from the forecasts and as such differences may be material. We express no opinion on the achievability of the forecasts, if any, relating to the Companies given to us by the Management.

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With regard to SPL & ECL claims to title of assets or property, we have relied solely on representations, whether verbal or otherwise, made by the Management to us for the purpose of this report. We have not verified such representations against any title documents or any agreements evidencing right or interest in or over such assets or property, and have assumed SPL & ECL claim to such rights, title or interest as valid for the purpose of this report.

It should be understood that subsequent developments may affect this Opinion and we assume no responsibility for updating or revising our Opinion based on circumstances or events occurring after the date hereof. It is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein.

Our Opinion also does not address any matters otherwise than as expressly stated herein, including but not limited to matters such as corporate governance, shareholders rights or any other equitable considerations. We have also not opined on the fairness of any terms and conditions of the Scheme other than the fairness, from a financial point of view, of the share exchange ratio proposed by the Valuers, to the shareholders of SPL.

Our engagement as a fairness opinion provider is independent of our other business relationships, which we may have with the Company, ECL and / or their relevant subsidiaries/ affiliates. In addition, in the ordinary course of their respective business, affiliates of ACL may invest in the securities of the Company, ECL and / or their subsidiaries or group companies, for their own accounts and for the accounts of their clients subject to the compliance of the SEBI (Prohibition of Insider Trading) Regulations may at any time hold a position in such securities. We will not be responsible to any other person/party for any decision. Our engagement and opinion expressed herein solely for the benefit of the Board of Directors of the Company (in its capacity as such) in connection with its consideration of the Scheme and for none other. Delivery of our opinion does not create any fiduciary, equitable or contractual duties on ACL (including, without limitation, any duty of trust or confidence). Further, our Opinion is being provided only for the limited purpose of complying with the SEBI regulations and the requirement of the stock exchanges on which the shares of the Company are listed or

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as required under applicable law, and for no other purpose. Neither Ashika Capital Limited, nor its affiliates, partners, directors, shareholders, managers, employees or agents of any of them, make 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.

The Company has been provided with the opportunity to review the draft Opinion as part of our standard practice to make sure that factual inaccuracy / omissions are avoided in our final Opinion.

The fee for our services is not contingent upon the results of the proposed Scheme. This document is subject to the laws of India.

Our Opinion is not intended to and does not constitute a recommendation to any party as to how such party should vote or act in connection with the Scheme or any matter related thereto.

5. Valuation Methodologies considered and Valuers' Recommendation:

For the purpose of arriving at the value of equity shares of ECL and SPL for recommending the aforesaid share exchange ratio, following valuation methodologies have been used by the Valuers:

- (a) Asset Approach - NAV Method
- (b) Income Approach - Discounted Cash Flows Method
- (c) Market Approach - Market Price and Comparable Companies Method

The Valuers, through Valuation Report have recommended a share exchange ratio of 59 (fifty nine) fully paid equity shares of ECL of face value INR 1/- each for every 10 (ten) fully paid equity shares of SPL of face value INR 10/- each.



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6. Conclusion:

Based on our examination of the documents mentioned in point 2, our discussions with the management of SPL and ECL and other intermediaries as appointed by them in this regard and subject to the foregoing, including various assumptions and limitations set forth herein, to the best of our knowledge and belief, we are of the opinion on the date hereof that from a financial point of view, the Share Exchange Ratio recommended by the Valuers is fair to the shareholders of SPL.

Thanking You,

Yours faithfully
For Ashika Capital Limited


Mihir Mehta
Senior Vice President - MBD



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