

December 04, 2018

To,  
**The Board of Directors,**  
Kesoram Industries Limited  
Birla Building, 8<sup>th</sup> Floor,  
9/1 R.N. Mukherjee Road,  
Kolkata – 700001

**Dear Members of the Board,**

**I. Engagement Background**

We, Axis Capital Ltd ("We" or "AXIS"), understand that the Board of Directors (the "Board") of Kesoram Industries Limited, a public limited company incorporated in India under the provisions of the Companies Act, 1913 ("Demerged Company" or "KIL") is considering a demerger of the Tyre Business, as defined below, ("Demerged Undertaking") into Birla Tyres Limited ("Resulting Company" or "BTL") through a scheme of arrangement ("Scheme") pursuant to the provisions of Sections 230 to 232 and other applicable provisions of the Companies Act, 2013.

KIL is a public limited company, limited by shares, incorporated under the provisions of the Companies Act, 1913 with its registered office at 8<sup>th</sup> Floor, Birla Building, 9/1 R N Mukherjee Road, Kolkata 700001. The equity shares of KIL are listed on Bombay Stock Exchange (BSE), National Stock Exchange (NSE) and Calcutta Stock Exchange (CSE); KIL GDR's are listed on Societe de la Bourse de Luxembourg. KIL is a diversified enterprise engaged in (i) manufacturing and distribution of cement under "Birla Shakti" brand (referred to as the "Cement Business") and (ii) manufacturing and distribution of automotive tyres under "Birla Tyres" brand (referred to as the "Tyre Business")

BTL, is an unlisted public limited company incorporated under the provisions of the Companies Act 2013, having its registered office at 8th Floor, Birla Building, 9/1 R N Mukherjee Road, Kolkata 700001.

1 | Page



**Axis Capital Limited (Erstwhile "Axis Securities and Sales Limited")**

SEBI Merchant Banker Regn No.:MB/INM000012029 Member Of: BSE Ltd. & National Stock Exchange of India Ltd., Mumbai.

CIN No. U51900MH2005PLC157853

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We further understand that the Share Entitlement Ratio for the proposed transaction has been arrived at based on the valuation report dated December 04, 2018 prepared by Kothari & Company, an independent firm of chartered accountants (the "Valuer"), who has been appointed for this exercise by KIL.

Based on our perusal of the Share Entitlement Report (the "Report") dated December 04, 2018 prepared by the Valuer and the Draft Scheme Document ("Draft Scheme Document") shared with us, the final version of which will be filed by the aforementioned companies with the appropriate authorities, we understand that it has been proposed that pursuant to the demerger of the Demerged Undertaking of the Demerged Company into Resulting Company, the proposed Scheme involves issuance to every shareholder of KIL on a pro rata basis as on the Record Date (as defined in the Scheme)

*"1 (One) fully paid up equity share of INR 10 each of BTL for every 1 (One) existing fully paid up equity share of INR 10 each held in KIL" (hereinafter referred to as the "Share Entitlement Ratio")*

In connection with the aforesaid, you requested our opinion ("Opinion"), as of the date hereof, as to the fairness of the Share Entitlement Ratio, as proposed by the Valuer, from a financial point of view, to the shareholders of KIL.

## **II. Basis of Opinion**

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

While currently the Cement Business and the Tyre Business are a part of the Demerged Company, the nature of risk and competition involved in the two businesses are distinct from each other necessitating different management approaches and focus.

The Tyre business has the potential to grow substantially as a standalone business with separate financing and operations and requires focused leadership and management attention to achieve the aforesaid growth potential. Additionally, the Tyre Business being distinct in its characteristics, the said business is capable of attracting a different set of investors, lenders and other stakeholders.

Accordingly, with a view to restructure KIL and to enable the Tyre Business to be pursued and carried on more conveniently and advantageously with greater focus and attention, the KIL



management proposes to house the Tyre Business in a different entity, having its own strategy, management team and set up. The same will facilitate the business considerations and factors applicable to the Tyre Business to be addressed more effectively and adequately.

Accordingly, KIL management proposes that the Tyre Business of KIL be demerged and transferred on a going concern basis into the Resulting Company with mirror shareholding of the Demerged Company.

Upon the Scheme becoming effective, existing share capital of BTL shall be cancelled, extinguished and paid off. The resulting pro rata shareholding of an equity shareholder of KIL in the Resulting Company, pursuant to the proposed Scheme would be a mirror image of the existing shareholding pattern of the Demerged Company (pre-demerger) as new shares in Resulting Company would be issued to the existing shareholders of the Demerged Company in exact proportion to their shareholding in the Demerged Company. As such, no shareholder is either advantaged or disadvantaged by virtue of the Scheme.

The key features of the Draft Scheme Document and Share Entitlement Report dated December 04, 2018, issued by Kothari & Company, provided to us and relied upon by us for framing this Opinion with respect to the Share Entitlement Ratio, are as under:

1. Upon the Scheme becoming effective from the Appointed Date (as defined in the Scheme), the Demerged Undertaking (including all the estate, assets, rights, claims, title, interest and contracts of the Demerged Undertaking) of the Demerged Company shall stand transferred to and be vested in or deemed to have been transferred to or vested in at book value, as a going concern, into the Resulting Company
2. As consideration for the transfer, equity shares in the Resulting Company shall be issued to the equity shareholders of the Demerged Company
3. All the Shareholders of the Demerged Company shall become shareholders of the Resulting Company on the Record Date (as defined in the Scheme)
4. Every equity shareholder of the Demerged Company shall receive 1 (One) equity share of Rupees 10/- each of the Resulting Company for every 1 (One) equity share of Rupees 10/- each he/she/it holds in the Demerged Company as on the Record date for the implementation of the Scheme
5. The equity shares of Resulting Company will be listed and admitted to trading on BSE and NSE.
6. The Appointed Date for the demerger of the Tyre Business will be January 1, 2019



The scope of our Opinion includes commenting on the fairness of the Share Entitlement Ratio as provided in the Report and not on the fairness or economic rationale of the Scheme per se or the analysis done by Kothari & Company. We have relied upon the Draft Scheme Document and taken the abovementioned key features of the Scheme (together with other facts and assumptions set forth in section III of this Opinion) into account while determining the meaning of "fairness", from a financial point of view, for the purposes of this Opinion.

### III. Limitation of Scope and Review

Our Opinion and analysis is limited to the extent of review of documents as provided to us by KIL including the Share Entitlement Report prepared by the Valuer and the Draft Scheme Document.

In arriving at this Opinion, we have among other things:

- reviewed the Draft Scheme Document provided to us by KIL;
- reviewed the Report provided to us by KIL;
- reviewed certain relevant publicly available business information relating to the activities of KIL up to September 30, 2018 including its annual report for 2017-18, as well as its shareholding pattern as on September 30, 2018; and
- Performed such other analysis and studies and considered such other information and factors as we deemed appropriate.

In arriving at our Opinion, we have assumed and relied upon, without independent verification, the accuracy and completeness of the financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with us and have relied upon the assurances of the management of KIL that they are not aware of any facts or circumstances that would make such information or data inaccurate or misleading in any material respect. We have not reviewed any financial forecasts relating to the Demerged Company and / or its subsidiaries or the Resulting Company. We have not reviewed any internal management information statements or any non-public reports, and instead, have relied upon documents/information that was provided by KIL as detailed above, for the purposes of this Opinion. We are not experts in the evaluation of litigation or other actual or threatened claims. We have assumed that there are no other contingent liabilities or circumstances that could materially affect the activities including underlying businesses or financial prospects of Demerged Company/Resulting Company other than those disclosed in the information provided. Our work does not constitute an audit, due diligence or certification of historical financial statements including working results of the Demerged / Resulting Company or their activities including underlying businesses referred to in this Opinion. We have not made or been provided with any independent valuation or appraisal of the assets or liabilities (contingent or otherwise) of the Demerged Company or the Resulting

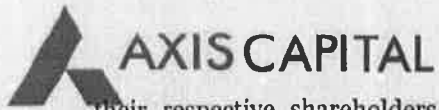


Company nor have we conducted any physical inspection of the properties or assets of the Demerged Company or the Resulting Company. In particular, we do not express any opinion as to the value of any asset of the Demerged Company and / or its subsidiaries or the Resulting Company whether at current prices or in the future. No investigation of KIL's / BTL's claim to title of assets has been made for the purpose of the exercise and the 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 annual reports. Therefore, no responsibility whatsoever is assumed for matters of a legal nature. We have not evaluated the solvency or fair value of the Demerged Company or the Resulting Company under either the laws of India or any other laws relating to bankruptcy, insolvency or similar matters. We have assumed that the final Scheme will be consummated without waiver, modification or amendment of any material terms, condition or agreement and that, in the course of obtaining the necessary governmental, judicial, regulatory and other approvals, consents, releases and waivers for the Scheme, no delay, limitation, restriction or condition, including any divestiture requirements or amendments or modifications, will be imposed that would have an adverse effect on the Demerged Company or the Resulting Company or the contemplated benefits of the Scheme. We have assumed that liquidity in each of the two companies, i.e. the Demerged Company and the Resulting Company, shall be comparable on the completion of the Scheme and that the respective shareholders will be able to divest their holding in each entity, if they wish, without any restriction. This Opinion is based and issued on the understanding that the Demerged Company and the Resulting Company and their respective subsidiaries have drawn our attention to all the matters, which they are aware of concerning the financial position of the Demerged Company and the Resulting Company and their subsidiaries, their activities including underlying businesses, and any other matter, which may have an impact on our analysis or our Opinion, on the Share Entitlement Ratio for the proposed Scheme, including any significant changes that have taken place or are likely to take place in the financial position of the Demerged Company and the Resulting Company and their subsidiaries or their activities including underlying businesses subsequent to the proposed appointed date for the proposed Scheme. Further, to avoid factual inaccuracies in our report, as a part of our standard practice, KIL's management has been provided an opportunity to review the Opinion (without the Share Entitlement Ratio).

We express no view or opinion as to any terms or other aspects of the Scheme other than the Share Entitlement Ratio as provided in the Report to the extent expressly specified herein, including, without limitation, the form or structure of the Scheme. No opinion or view is expressed with respect to any consideration received in connection with the Scheme by the holders of any other class of securities, creditors or other constituencies of any party. We do not express any opinion as to any tax or other consequences that might arise from the Scheme on the Demerged Company and / or its subsidiaries, Resulting Company and / or its subsidiaries and



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their respective shareholders, nor does our Opinion address any legal, tax, regulatory or accounting matters, as to which we understand that the Demerged Company and the Resulting Company have obtained such advice as they deemed necessary from qualified professionals. In addition, no opinion or view is expressed with respect to the fairness (financial or otherwise) of the amount, nature or any other aspect of any compensation to any of the officers, directors or employees of any party to the Scheme, or class of such persons, relative to the Share Entitlement Ratio. Furthermore, no opinion or view is expressed as to the relative merits of the Scheme in comparison to other strategies or transactions that might be available to KIL or in which KIL might engage or as to the underlying business decision of KIL to proceed with or effect the Scheme. We are not expressing any opinion as to what the value of the equity shares of KIL actually will be when issued or the prices at which the equity shares of the Demerged Company and/or the Resulting Company will trade at any time, including following announcement or consummation of the Scheme. In addition, we express no opinion or recommendation as to how any shareholder should vote or act in connection with the Scheme or any related matter.

The Company acknowledges that in connection with the Scheme: (i) AXIS has acted at arm's length at all times, is not an agent of, and owes no fiduciary duties to the Company or any subsidiary or affiliate of the Company or the Company's management, shareholders or creditors or the Board of the Company or any other persons, and (ii) AXIS may have interests that differ from those of the Company or its Board. The Company waives, on behalf of itself, any of its subsidiaries or affiliates or the Board, to the fullest extent permitted by applicable law, any claims it may have against AXIS arising from any alleged breach of fiduciary duty in connection with the Scheme or otherwise.

We have acted as Merchant Banker to the Board of KIL solely to render this Opinion and will receive a fee for our services, which is payable upon the rendering of this Opinion. The fee for our services is not contingent upon the results of the proposed demerger. In addition, KIL has agreed to reimburse our expenses and indemnify us against certain liabilities arising out of our engagement. In no event shall AXIS be liable for any loss, damage, cost or expense arising in any way from fraudulent acts, misrepresentations or willful default on the part of KIL, their directors, employees or agents and / or its subsidiaries or the Resulting Company and / or their subsidiaries, their directors, employees or agents. In no circumstances shall the liability of AXIS, its partners or employees, relating to services provided in connection with this Opinion exceed the amount paid to us in respect of the fees, if any, charged for these services.

We and/or our affiliates are engaged in securities trading, securities brokerage and financing activities, as well as providing investment banking and financial advisory services and products to a wide range of companies, governments and individuals. In the ordinary course of our



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**IV. Conclusion**

Based on our examination of the documents mentioned above including the Draft Scheme Document and the Report, our discussions with KIL and other intermediaries as appointed by KIL in this regard and subject to the foregoing, including the 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 the financial point of view the Share Entitlement Ratio as provided in the Report is fair.

Yours truly,  
For Axis Capital Ltd.

  
**Authorised Signatory**