

Valuation Report

Shalimar Paints Limited

January 2022



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Ref. No.: LM/Jan18-117/2022

January 18, 2022

To

The Board of Directors

Shalimar Paints Limited

4th Floor, Plot No. - 50

Sector 32, Gurugram, 122001

Haryana, India.

Dear Sir(s)/Madam(s),

Sub: Report on Floor Price for issue and conversion of Optionally Convertible Debentures (“OCDs”) of Shalimar Paints Limited for Preferential Allotment as per Securities Exchange Board of India (Issue of Capital and Disclosure Requirement) Regulation, 2018 and amended from time to time.

We, BDO Valuation Advisory LLP (**‘BDO Val’ or ‘We’ or ‘Us’**), have been appointed vide engagement letter dated January 14, 2022 bearing its reference number LM/Jan142/2022 by Shalimar Paints Limited (**“You” or “Shalimar” or “the Client” or “the Company”**) in relation to determination of Floor Price of Optionally Convertible Debentures (“OCDs”).

We understand that the Company is proposing to issue its **OCDs** to an identified investor on preferential basis (**“the Proposed Transaction”**) and the Client wants us to determine the floor price for issue and conversion of OCDs respectively as per Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended from time to time. (“ICDR Regulations” or SEBI (ICDR) Regulations, 2018”) and Companies Act, 2013 and rule made thereunder, as applicable.

We are pleased to present herewith our report on the same. We enclose our report providing our opinion as on January 11, 2022 (**“Valuation Date”**). The attached report details the valuation methodologies, calculations and conclusions with respect to this valuation.

We believe that our analysis must be considered as a whole. Selecting portions of our analysis or the factors we considered, without considering all factors and analysis together could create a misleading view of the process underlying the valuation conclusions.

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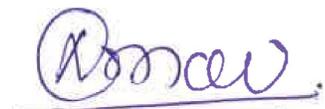
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The preparation of a valuation is a complex process and is not necessarily susceptible to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis.

This letter should be read in conjunction with the attached report. Should you require further information or clarifications, please feel free to contact us.

For BDO Valuation Advisory LLP

IBBI No.: IBBI/RV-E/02/2019/103



Lata R Gujar More

IBBI No.: IBBI/RV/06/2018/10488

Partner

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1. Brief Background of the Company

- 1.1. Shalimar Paints Limited (“Shalimar” or “the Client” or “You” or “the Company”) is engaged in the business of manufacturing, selling and distribution of paints, coatings and providing related services. It has pan-India presence through its marketing offices in all major states in India.
- 1.2. The Corporate Identification Number (“CIN”) of the Company is L24222HR1902PLC065611 and its registered office address is Stainless Centre, 4th floor, Plot no.- 50, Sector 32, Gurugram, 122001, Haryana.
- 1.3. The equity shares of Shalimar are listed on the National Stock Exchange of India Limited (“NSE”) and the BSE Limited (“BSE”).
- 1.4. The Company has manufacturing facilities located at Howrah, Nasik, Sikandrabad & Chennai (Gummidipundi) for products i.e. Paints that includes Emulsion, Distemper and Primer. The plant-wise installed capacity of the Company is as follows:

Installed Production Capacity (in KLPA)

Plant Name	FY21
Howrah Plant	-
Nasik Plant*	21,600
Sikandarabad Plant	23,400
Gummidipundi Plant	24,000
Total	69,000

*The Company has increased capacity of Nasik Plant from 1,800KLPA in FY 19 to 21,600KLPA in FY21

- 1.5. The Company is one of the oldest paint manufacturing brands founded during pre-independence era in Howrah West Bengal and seen many management changes. In 1989 the current promoters bought the Company. The Company has gone through the toughest time since 2014 due to fire in Howrah plant in 2014 and Nasik plant in 2016.
- 1.6. The shareholding pattern of as on December 31, 2021 is as follows:

Particulars	Number of Shares in Mn	%
Promoter & Promoter Group	28.8	53.1%
Public	25.5	46.9%
Total	54.3	100.0%

1.7. Key Past Financial Matrix

	INR Mn			
Revenue	FY19	FY20	FY21	Sep 21 (6M)
Revenue from Operations (INR Mn)	2,876.2	3,438.5	3,255.6	1,561.0
<i>Year or Year Growth</i>	3.6%	19.6%	(5.3%)	(4.1%)
Reported EBITDA (INR Mn)	(757.0)	(254.5)	88.2	(190.7)
<i>EBITDA (%)</i>	(26.3%)	(7.4%)	2.7%	(12.2%)
PAT (INR Mn)	(817.4)	(381.8)	(498.6)	(362.7)
<i>PAT (%)</i>	(28.4%)	(11.1%)	(15.3%)	(23.2%)

The Company's financial performance is erratic in last 3 years. EBITDA was marginally positive in FY21 on account of improvement in revenue in last two quarters of FY21. There was an improvement in revenue from operation in first half of FY22 as compared to FY21, however Margin is negative due to increase in raw material prices.

The summary of capacity utilization of the Company is tabulated below:

Particulars	FY19	FY20	FY21
Installed Capacity Utilization (KLPA)	48,000	62,400	69,000
Total Production (KLPA)	26,475	31,212	28,604
Capacity Utilization	55.2%	50.0%	41.5%

Key Past Financial Matrix

	INR Mn			
Balance Sheet as at	March 31, 19	March 31, 20	March 31, 21	September 30, 21
Equity	107.3	108.6	108.6	108.6
Other Equity *	2,945.7	2,620.1	2,122.1	1,760.3
Net Worth	3,053.0	2,728.7	2,230.7	1,868.9
Term Loan including Working Capital Loan	1,523.8	1,207.7	1,305.4	1,510.9

*Other Equity includes Securities Premium Reserve, shares options outstanding, general reserves, retained earnings and other comprehensive income.

As depicted above, the financial position of the Company is becoming weak as the borrowings are increasing and networth is diminishing y-o-y.

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2. Purpose of Valuation

- 2.1. We understand that the Company is proposing to issue OCD to an identified investor on preferential basis ("the Proposed Transaction") and appointed us to determine the floor price for issue and conversion of OCD respectively as per Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 and as amended from time to time ("**ICDR Regulations**") and Companies Act, 2013 and rule made thereunder, as applicable
- 2.2. We, BDO Valuation Advisory LLP ("BDO Val" or "We" or "Us") have been appointed vide letter dated January 14, 2022 bearing its reference number LM/Jan142/2022 by the Client to determine the floor price for issue and conversion of its OCD for preferential allotment.
- 2.3. The Client's Management ("the Management") has informed us to consider the Valuation Date for current valuation exercise as January 11, 2022 ("Valuation Date"). Therefore, the cut-off date for all information, including market data, has been considered till January 10, 2022.

3. Terms of Engagement

Context and Purpose

- 3.1. BDO Val has been appointed to determine the issue price and conversion price of OCD as per ICDR Regulations. This valuation exercise and Valuation Report are solely for the purpose mentioned in the Report.

Restricted Audience

- 3.2. This Report and the information contained herein are absolutely confidential and are intended for the use of the Client only for applicable provisions and circular issued by Securities and Exchange Board of India ('**SEBI**'). The results of our valuation analysis and our Report cannot be used or relied by the Company for any other purpose or by any other party for any purpose whatsoever.
- 3.3. This Report will be placed before Board of Directors of Shalimar and intended only for their sole use and information only. To the extent mandatorily required under applicable laws of India, this Report maybe produced before judicial, regulatory or government authorities, in connection with the proposed issue of OCD (including with SEBI and stock exchanges). We are not responsible to any other person or party for any decision of such person or party based on this Report. Any person or party intending to provide finance/ invest in the shares/ business of the Company or its subsidiaries, associates, joint ventures shall do so after seeking their own professional advice and after carrying out their own due diligence procedures to ensure that they are making an informed decision. If any person/ party (other than the Client) chooses to place reliance upon any matters included in the Report, they shall do so at their own risk and without recourse to BDO Val.

- 3.4. It is hereby notified that usage, reproduction, distribution, circulation, copying or otherwise quoting of this Report or any part thereof, except for the purpose as set out earlier in this Report, without our prior written consent, is not permitted, unless there is a statutory or a regulatory requirement to do so.
- 3.5. Without limiting the foregoing, we understand that the Client may be required to share this Report with SEBI, professional advisors of the Client and share it with the proposed allottee. We hereby give consent to such disclosure of this Report, on the basis that we owe responsibility only to the Client that has engaged us, under the terms of the engagement, and no other person; and that, to the fullest extent permitted by law, we accept no responsibility or liability to any other party, in connection with this Report. It is clarified that reference to this Report in any document and/or filing with SEBI and Ministry of Corporate Affairs, in connection with the Proposed Transaction, shall not be deemed to be an acceptance by us of any responsibility or liability to any person/ party other than the Client.

4. Caveats, Limitations and Disclaimers

- 4.1. This Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.
- 4.2. This Report, its contents, and the analysis herein are specific to (i) the purpose of valuation agreed as per the terms of our engagement, (ii) the Report date and (iii) based on the data detailed in the section - Sources of Information. The management of the Company (“**the Management**”) have represented that the business activities of the Company has been carried out in the normal and ordinary course till the Report date and that no material changes are expected in their respective operations and financial position to occur upto the Report date.
- 4.3. We were provided with sufficient information and time to make our opinion for this valuation exercise. However, our opinion may change if any material information is not disclosed / hidden from us during our valuation exercise.
- 4.4. The scope of the assignment did not include performing audit tests for the purpose of expressing an opinion on the fairness or accuracy of any financial or analytical information that was used during the course of the work. Accordingly, we express no audit opinion or any other form of assurance on this information on behalf of the Company. The assignment did not involve us to conduct the financial or technical feasibility study. We have not done any independent technical valuation or appraisal or due diligence or legal title search of the assets or liabilities of the Company and have considered them at the value as disclosed by the Company in their regulatory filings or in submissions, oral or written, made to us.

- 4.5. Further, this Valuation Report is based on the extant regulatory environment and the financial, economic, monetary and business/market conditions, and the information made available to us or used by us up to the date hereof, which are dynamic in nature and may change in future, thereby impacting the valuation of the Company. Subsequent developments in the aforementioned conditions may affect this Report and the assumptions made in preparing this Report and we shall not be obliged to update, review or reaffirm this Report if the information provided to us changes. Further events occurring after the date hereof may affect this Report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this Report.
- 4.6. We have no present or planned future interest in the Company or any of their group entities.
- 4.7. The recommendation contained herein is not intended to represent value at any time other than the Valuation Date.
- 4.8. This Report is subject to the laws of India.
- 4.9. The fee for this engagement is not contingent upon the outcome of the Report.
- 4.10. In rendering this Report, we have not provided legal, regulatory, tax, accounting or actuarial advice and accordingly we do not assume any responsibility or liability in respect thereof.
- 4.11. This Report is based on the information received from the sources mentioned herein and discussions with the representatives of the Company. We have assumed that no information has been withheld that could have influenced the purpose of our Report.
- 4.12. We have assumed and relied upon the truth, accuracy and completeness of the information, data and financial terms provided to us or used by us, we have assumed that the same are not misleading and do not assume or accept any liability or responsibility for any independent verification of such information or any independent technical valuation or appraisal of any of the assets, operations or liabilities of the Company. Nothing has come to our knowledge to indicate that the material provided to us was mis-stated or incorrect or would not afford reasonable grounds upon which to base our Report.
- 4.13. For the present valuation exercise, we have also relied upon information available in the public domain; however, the accuracy and timeliness of the same has not been independently verified by us.
- 4.14. In addition, we do not take any responsibility for any changes in the information used by us to arrive at our conclusion as set out here in which may occur subsequent to the date of our Report or by virtue of fact that the details provided to us are incorrect or inaccurate.

- 4.15.** The valuation has been arrived based on our analysis. Any transaction price may however be significantly different and would depend on the negotiating ability and motivations of the respective buyers and sellers in the transaction.
- 4.16.** Our scope is limited to recommendation of floor price for issue and conversion of the OCDs of the Company. The Report should not be construed as, our opinion or certifying the compliance of the Proposed Transaction with the provisions of any law including Foreign Exchange Management Act, 1999, taxation related laws, capital market related laws, any accounting, taxation or legal implications or issues arising from Proposed Transaction.
- 4.17.** The Report assumes that the Company comply fully with relevant laws and regulations applicable in all their areas of operation unless otherwise stated and that the Company will be managed in competent and responsible manner. Further, except as specifically stated to the contrary, this Report has given no consideration to matters of legal nature, including issues of legal title and compliance with local laws, litigation and other contingent liabilities that are not recorded in the financial statements of the Company.
- 4.18.** This Report does not look into the business/commercial reasons behind the Proposed Transaction nor the likely benefits arising out of the same. Similarly, it does not address the relative merits of the Proposed Transaction as compared with any other alternative business transaction or any other alternatives, whether or not such alternatives could be achieved or are available. The assessment of commercial and investment merits in the Company is sole responsibility of the investors of the Company and we don't express opinion on the suitability or otherwise of entering into any financial or other transactions with the Company.
- 4.19.** Valuation and determination of a fair value is not a precise science and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgment. There is therefore no indisputable single value. While we have provided an assessment of the value based on an analysis of information available to us and within the scope of our engagement, others may place a different opinion.
- 4.20.** Whilst all reasonable care has been taken to ensure that the factual statements in the Report are accurate, neither us, nor any of our partners, officers or employees shall in any way be liable or responsible either directly or indirectly for the contents stated herein. Accordingly, we make no representation or warranty, express or implied, in respect of the completeness, authenticity or accuracy of such factual statements. We expressly disclaim any and all liabilities, which may arise based upon the information used in this Report.

- 4.21.** We owe responsibility to only the Board of Directors of the Client and nobody else. We will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions of or advice given by any other party to the Company. 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 Company, their directors, employees or agents. In the particular circumstances of this case, our liability, if any (in contract or under statute or otherwise) for any economic loss or damage arising out of or in connection with this engagement, howsoever the loss or damage caused, shall be limited to the amount of fees actually received by us from the Client as laid out in the engagement letter, for such valuation work.
- 4.22.** We do not accept any liability to any third party in relation to the issue of this Report. It is understood that this analysis does not represent a fairness opinion. This 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.
- 4.23.** This Report does not in any manner address the prices at which equity shares of Shalimar will trade following the announcement and/or implementation of the Proposed Transaction and we express no opinion or recommendation as to how the shareholders of the Company should vote at the shareholders' meeting(s) to be held in connection with the Proposed Transaction.
- 4.24.** The recommendation(s) rendered in this report only represent our recommendation(s) based upon information furnished by the Company (or its representatives) 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).
- 4.25.** Further, after declaration of COVID-19 as a pandemic by World Health Organization had caused a widespread disruption in businesses as well as on financial markets in India and globally alike. Our assumptions for the valuation is surrounded by this unprecedented uncertainty across all the industries and sectors including the time period over which these circumstances could prevail. The valuation assumptions, the underlying projections and the outcome of the valuation analysis could materially change as a result of the continued or increased uncertainty around the prevalence of COVID-19 circumstances and hence a reliance on our valuation must be placed considering these unprecedented circumstances.

5. Sources of Information

For the purpose of undertaking this valuation exercise, we have relied on the following sources of information provided by the management and representatives of the Company:

- 5.1. Terms of proposed issue of OCDs;
- 5.2. Audited Consolidated financial statements of Shalimar for the financial year ending 31st of March ("FY") 2018 to 2021;
- 5.3. Limited Review Financial Statement of Shalimar as on September 30, 2021;
- 5.4. Information provided by leading database sources and available in public domain; and
- 5.5. Other relevant data and information provided to us, whether in oral or physical form or in soft copy, and discussions with the representatives of the Client.

6. Procedures Adopted

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

- Requested and received the historical financials as well as qualitative information of the Company and its operations;
- Obtained data available in public domain;
- Discussion with the Client (over call) with regard to the Company;
- Understood the business and fundamental factors that affect its earning-generating capability and historical financials;
- Considered ICDR Regulations.
- Selection of appropriate internationally accepted valuation methodologies after careful deliberations. Our valuation and this report are based on the premise of "going concern" value. Any change in the valuation base, or the premise could have significant impact on the outcome of the valuation exercise, and therefore, this Report.
- Determination of floor price for issue and conversion of Proposed OCD of the Company as on the Valuation Date.
- The Client has been provided with the opportunity to review the draft Report as part of our standard practice to make sure that factual inaccuracies/omissions of the information are avoided in our final Report; and
- Issue of final report.

7. Proposed Terms of Issue

7.1. The proposed terms of OCDs to be issued by Shalimar are as follows:

Particulars	Terms
Issue Price	INR 180.0 per OCD
Coupon	9.0% per annum
Coupon Terms	Paid on quarterly basis
<u>Embedded Options</u>	
Coupon Payment	The coupon shall be calculated from the date of allotment of the Investor OCDs until the date of conversion or redemption, as the case may be. The coupon amount shall be payable in cash each quarter commencing from the date of allotment
Conversion Option	The Investor, at its sole discretion, has the right (but not the obligation) to convert the OCDs
Conversion Price	INR 180.0 per OCD
Redemption Price	INR 180.0 per OCD
Maximum Option Tenure	18 months from the date of allotment
Mandatory Redemption Date	End of 18 months from the date of allotment

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8. Floor Price Determination for Issue and Conversion of OCDs

8.1. The equity shares of Shalimar are listed on the NSE and BSE, therefore, to arrive at the Floor Value for issue and conversion of OCD, we have referred to ICDR Regulations.

8.2. Regulation 162 of ICDR Regulations related to convertible securities, is reproduced below:

I. *the tenure of the Convertible securities of the issuer shall not exceed eighteen months from the date of allotment.*

II. *Upon exercise of the option by the allottee to convert the convertible securities within the tenure specified in sub-regulation (1), the issuer shall ensure that the allotment of equity shares pursuant to exercise of the convertible securities is completed within 15 days from the date of such exercise by the allottee*

8.3. Regulation related to Pricing guidelines for frequently trade equity shares as follows:

Regulation 164(1) related to pricing guideline for frequently trade shares, the floor price of the equity shares to be allotted pursuant to preferential issue shall be higher of 90/10 trading days' volume weighted average price (VWAP) of the scrip preceding the relevant date.

First Proviso to Regulation 164 (1) - Provided that if the Articles of Association of the issuer provide for a method of determination which results in a floor price higher than that determined under these regulations, then the same shall be considered as the floor price for equity shares to be allotted pursuant to the preferential issue.

Regulation 166A(1) - An additional requirement for a valuation report from an independent registered valuer shall be required in case of change in control/ allotment of more than 5% of post issue fully diluted share capital of the issuer company to an allottee or to allottees.

Provided that the floor price, in such cases, shall be higher of the floor price determined under sub-regulation (1), (2) or (4) of regulation 164, as the case may be, or the price determined under the valuation report from the independent registered valuer or the price determined in accordance with the provisions of the Articles of Association of the issuer, if applicable.

As per Regulation 164(5) - frequently traded shares" means the shares of the issuer, in which the traded turnover on any recognized stock exchange during the 240 trading days preceding the

relevant date, is at least ten per cent of the total number of shares of such class of shares of the issuer.

As per First Proviso to Regulation 158- "provisions of chapter V, "Preferential Issue" shall apply to conversion of a loan or an option attached to convertible debt instruments into equity shares as mentioned in clause (a) subject to the provisions of the proviso to sub-section (3) of section 62 of the Companies Act, 2013."

As per Regulation 161- the 'relevant date' in case of preferential issue of equity shares means-

- a) the date thirty days prior to the date on which the meeting of shareholders is held to consider the proposed preferential issue.
- b) in case of a preferential issue of convertible securities, either the relevant date referred to in clause (a) of this regulation or a date thirty days prior to the date on which the holders of the convertible securities become entitled to apply for the equity share.

The ICDR guidelines/ regulations is silent about determination of floor price of OCD. Hence, the price as per Regulation 164 (1) is considered to be same as per the price derived under Regulation 166A (1) of the ICDR Regulations.

- 8.4.** The Management has informed us that there is no valuation methodology/ formula prescribed in AOA.
- 8.5.** Further, the Management has informed us that for Conversion of OCDs the relevant date shall be the date thirty days prior to the date on which the meeting of shareholders (February 10, 2022) is held to consider the proposed preferential issue i.e., the relevant date is January 11, 2022.
- 8.6.** Valuation as per Regulation 166A (1) of ICDR Regulations:

8.6.1. It is pertinent to note that the valuation of any company or its undertaking 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 Company. In addition, this valuation will fluctuate with changes in prevailing market conditions, and prospects, financial and otherwise, of the Company, and other factors which generally influence the valuation of Company and their assets.

8.6.2. 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 transactions 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.

- 8.6.3. It may be noted that BDO Val is enrolled with IOV Registered Valuers Foundation, which has recommended to follow IVS for undertaking valuation. We have given due cognizance to the same in carrying out the valuation exercise.
- 8.6.4. We have considered the International Valuation Standards issued by International Valuation Standards Council ("IVS").
- 8.6.5. The relevant date for the current valuation exercise has been considered as January 11, 2022 ("Valuation Date") and market parameters have been considered till January 10, 2022.
- 8.6.6. We understand that the OCDs have two embedded options i.e., conversion option and redemption option (straight bond). The right to select the option of conversion is available with the holder of OCDs i.e., the Investor.
- 8.6.7. The OCDs will be issued at INR 180.0/- each. The OCDs may be converted into Equity Shares at INR 180.0 per equity share, at the sole option and discretion of the investor in accordance with the terms of the issuance of the OCDs, but not later than 18 months from the date of allotment of the OCDs. If not opted for conversion, each OCD shall be automatically redeemed at the end of 18 months from the date of allotment of the OCDs. The equity shares arising out of conversion of the OCDs will rank pari passu in all respects with the then outstanding equity shares of the Company. Thus, for arriving at floor price for issue and conversion of OCDs to be issued, we have considered Black Scholes Model for valuation of call option on equity shares of the company and Straight Bond Value Method for valuation of debenture.
- 8.6.8. Hence, Valuation of OCD proposed to be issued= value of call option + value of straight bond.

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8.7. Equity Valuation

- As stated above, the equity shares of the Company are listed on the NSE and BSE. There is regular transaction in the equity shares with reasonable volumes. The pricing regulations as prescribed for equity shares as per Regulation 164 (1) (refer para 8.3) is considered for arriving the equity share price as per market price method.

8.8. Black Scholes Model

- 8.8.1. When the price process is continuous, i.e., price changes becomes smaller as time periods get shorter, the binomial model for pricing options converges on the Black Scholes model.
- 8.8.2. The model, named after its co-creators, Fischer Black and Myron Scholes, allows us to estimate the value of any option using a small number of inputs and has been shown to be remarkably robust in valuing many listed options.
- 8.8.3. The option price and the stock price depend on the same underlying source of uncertainty.
- 8.8.4. We can form a portfolio consisting of the stock and the option which eliminates this source of uncertainty.
- 8.8.5. The portfolio is instantaneously riskless and must instantaneously earn the risk-free rate.
- 8.8.6. This leads to the Black-Scholes differential equation. Any security whose price is dependent on the stock price satisfies the differential equation.
- 8.8.7. The particular security being valued is determined by the boundary conditions of the differential equation.
- 8.8.8. In a forward contract, the boundary condition is $f = S - K$ when $t = T$
 - a) The solution to the equation is $f = S - K e^{-r(T - t)}$ When the call option contract matures, the payoff is:
 - b) Solving the equation with the end condition, we obtain the Black-Scholes formula (on the right) where:
 - c) S = Current value of the underlying asset
 - d) K = Strike price of the option
 - e) t = Life to expiration of the option
 - f) r = Riskless interest rate corresponding to the life of the option
 - g) s^2 = Variance in the $\ln(\text{value})$ of the underlying asset

$$c = S_0 N(d_1) - K e^{-rt} N(d_2)$$

$$p = K e^{-rt} N(-d_2) - S_0 N(-d_1)$$

$$\text{where } d_1 = \frac{\ln(S_0 / K) + (r + \sigma^2 / 2)T}{\sigma \sqrt{T}}$$

$$d_2 = \frac{\ln(S_0 / K) + (r - \sigma^2 / 2)T}{\sigma \sqrt{T}} = d_1 - \sigma \sqrt{T}$$

8.9. Valuation of Straight Bonds

- 8.9.1. Valuation of Straight Bonds will involve calculating the bond's cash flow or the present value of a bond's future payment.
- 8.9.2. The nature of straight bond part in OCDs being same, we have adopted the above approach for valuation of straight bond.

9. Valuation of OCDs of Shalimar

9.1. Valuation of Equity (S)

- 9.1.1 The volume of equity shares traded of Shalimar are frequently traded on NSE & BSE in terms of Regulation 164(5) of ICDR Regulations, with maximum volume recorded NSE.
- 9.1.2 We have considered the share prices quoted on NSE for determining the equity value of the Company. The value per share of the Company as per Regulation 164 (1) of ICDR Regulations, is INR 114.43/- as below:

Particulars	Valuer Per Share	Annexure
90 Trading Day's VWAP	104.60	I
10 Trading Day's VWAP	114.43	II
Higher of Above	114.43	

9.2. Valuation of Call Option as per Black Scholes Model

- Stock Price: We have considered the stock price of INR 114.43.
- Exercise Price: The exercise price is the conversion price in the current case i.e, INR 180.0. The conversion price is the price per share at which a convertible security, such as corporate bonds or preferred shares, can be converted into common stock.
- Expected Volatility of the Share price: Volatility is a measure of the amount by which a price has fluctuated or is expected to fluctuate during a period. The measure of volatility used in the Black - Scholes Model is the annualized standard deviation of the continuously compounded rates of return on the stock over a period of time. In the present case, we have considered volatility of 51.8%.

- Dividend Yield: For present valuation exercise, we have considered Dividend Yield of 0.0% as the Company has not issued any dividend in the past 1.5 years.
- Life to Expiration (time to maturity/expected life of options) is the period for which call option is expected to live. The OCDs are convertible into equity shares of the Company at any time at the sole discretion of the holder, but not later than 18 months from the date of allotment of the OCDs. Therefore, we have considered life of call option as 1.5 years (i.e., 18 months).
- Risk-free Interest Rate: The risk-free interest rate has been considered based on the zero-coupon yield curve for Government Securities (as quoted on the Clearing Corporation of India) for the maturity corresponding to the expected life of the call option. Accordingly, continuous risk-free rate is calculated. The continuous risk-free rate is arrived at 4.27% as on January 10, 2022.

9.3. On the basis of above, the value of call option on stock of the Company is arrived at INR 14.2 as on January 11, 2022 (Refer Annexure-III).

9.4. Valuation of Straight Bond

- The present value of Straight Bond is calculated by discounting the cash flow (principal repayment amount in this case) using a suitable discounting factor. The discounting factor should represent a rate of return based on the characteristics of OCDs, its credit rating and the credibility of the issuer.
- The Management has informed us that, currently the borrowing rate of Shalimar is 14% for secured debt. The nature of OCD being unsecured we have added a risk premium of 2% to arrive at a discounting rate of 16%.
- Based on above the present value of Straight Bond is arrived at INR 165.5 (Refer Annexure IV) as on January 11, 2022.

9.5. The fair value of OCD is arrived by aggregating the fair value of call option and fair value of straight bond as arrived above. Thus, the fair value of OCD is arrived at INR 180.0/- (rounded off) as at January 11, 2022. (Refer Annexure V).

9.6. For the conversion of the OCD into equity shares, the equity share price as per Regulation 164 (1) is applicable and other regulations 164(1) first proviso and 161(A) are applicable.

- 9.7. The valuation conclusions arrived at many cases are by their nature subjective and dependent on the exercise of individual judgment. There can be therefore no standard formulae to establish an indisputable value, although certain formulae are helpful in assessing reasonableness.
- 9.8. The current valuation has been carried out based on the valuation methodology explained herein earlier. Further, various qualitative factors, the business dynamics and growth potential of the business, having regard to information base, management perceptions and limitations, were given due consideration.
- 9.9. The following is the summary of the valuation for issue of OCDs:

Particulars	Value Per OCD (INR)
Regulation 164 (1) of ICDR Regulations - Refer para 8.3	180.00
First Provisio to Regulation 164 (1) of ICDR Regulations- Refer para 8.4	N.A.
Regulation 166 (A) of ICDR Regulation- Refer para 8.6	180.00
Higher of Above	180.00

- 9.10. The following is the summary of minimum conversion price of OCDs:

Particulars	Value Per Share (INR)
Regulation 164 (1) of ICDR Regulations - Refer Para 9.1	114.43
First Provisio to Regulation 164 (1) of ICDR Regulations - Refer Annexure VI	N.A.
Regulation 166 (A) of ICDR Regulation - Refer Annexure VI	114.43
Higher of Above	114.43

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10. Annexure

Annexure I

90 Trading days' VWAP			
S. No.	Date	Volume	Value
1	January 10, 2022	490,816	57,522,814.05
2	January 7, 2022	218,634	24,934,539.35
3	January 6, 2022	187,687	21,377,942.55
4	January 5, 2022	183,745	20,542,754.95
5	January 4, 2022	99,593	11,241,986.15
6	January 3, 2022	262,974	30,152,148.15
7	December 31, 2021	375,036	43,012,809.55
8	December 30, 2021	119,020	13,046,754.40
9	December 29, 2021	205,269	22,953,144.60
10	December 28, 2021	636,022	73,202,972.10
11	December 27, 2021	1,020,292	116,577,773.35
12	December 24, 2021	237,485	26,071,857.00
13	December 23, 2021	98,395	10,642,855.80
14	December 22, 2021	248,421	27,321,906.05
15	December 21, 2021	161,093	17,256,471.80
16	December 20, 2021	242,532	25,460,858.30
17	December 17, 2021	95,269	10,082,363.60
18	December 16, 2021	134,067	14,270,212.10
19	December 15, 2021	125,985	13,616,942.75
20	December 14, 2021	134,080	14,525,707.60
21	December 13, 2021	77,311	8,368,961.65
22	December 10, 2021	158,753	17,106,953.65
23	December 9, 2021	61,792	6,587,489.90
24	December 8, 2021	100,003	10,624,768.50
25	December 7, 2021	199,799	21,144,319.95
26	December 6, 2021	107,864	11,213,483.15
27	December 3, 2021	132,827	14,007,349.25
28	December 2, 2021	139,322	14,458,073.45
29	December 1, 2021	67,718	6,931,467.85
30	November 30, 2021	242,729	25,250,550.60
31	November 29, 2021	194,347	19,704,465.05
32	November 26, 2021	130,605	13,851,453.45
33	November 25, 2021	274,598	29,589,195.45
34	November 24, 2021	636,559	70,916,857.10
35	November 23, 2021	474,889	52,787,909.65
36	November 22, 2021	1,184,260	131,649,807.75

90 Trading days' VWAP			
S. No.	Date	Volume	Value
37	November 18, 2021	520,613	56,048,045.50
38	November 17, 2021	1,542,830	170,232,469.50
39	November 16, 2021	1,150,277	119,127,619.25
40	November 15, 2021	199,995	19,409,899.25
41	November 12, 2021	68,432	6,607,791.85
42	November 11, 2021	105,561	10,162,023.20
43	November 10, 2021	138,998	13,410,993.55
44	November 9, 2021	485,111	46,340,280.40
45	November 8, 2021	65,298	5,954,007.55
46	November 4, 2021	29,583	2,679,945.70
47	November 3, 2021	55,382	5,028,586.00
48	November 2, 2021	58,615	5,339,116.60
49	November 1, 2021	43,934	4,003,249.50
50	October 29, 2021	35,435	3,230,819.05
51	October 28, 2021	58,335	5,374,922.30
52	October 27, 2021	235,570	22,167,722.05
53	October 26, 2021	44,987	4,105,801.80
54	October 25, 2021	67,057	6,045,863.45
55	October 22, 2021	68,237	6,299,426.25
56	October 21, 2021	123,576	11,426,373.70
57	October 20, 2021	166,360	15,635,202.75
58	October 19, 2021	178,733	16,975,287.00
59	October 18, 2021	123,341	11,897,171.15
60	October 14, 2021	96,655	9,423,452.95
61	October 13, 2021	138,914	13,601,520.20
62	October 12, 2021	107,802	10,450,702.75
63	October 11, 2021	127,977	12,497,781.15
64	October 8, 2021	106,425	10,409,388.55
65	October 7, 2021	110,402	10,765,104.35
66	October 6, 2021	181,924	17,804,388.00
67	October 5, 2021	185,299	17,984,822.60
68	October 4, 2021	455,806	44,411,296.25
69	October 1, 2021	104,548	9,775,054.45
70	September 30, 2021	137,629	12,822,776.25
71	September 29, 2021	147,788	13,840,011.50
72	September 28, 2021	94,906	8,921,613.15
73	September 27, 2021	140,367	13,320,534.95
74	September 24, 2021	630,382	60,710,832.80

90 Trading days' VWAP			
S. No.	Date	Volume	Value
75	September 23, 2021	138,595	12,921,785.05
76	September 22, 2021	147,255	13,669,936.05
77	September 21, 2021	417,580	37,825,709.80
78	September 20, 2021	105,995	10,020,197.65
79	September 17, 2021	147,567	14,153,885.80
80	September 16, 2021	94,041	9,112,426.20
81	September 15, 2021	77,494	7,557,607.70
82	September 14, 2021	91,721	8,872,746.80
83	September 13, 2021	73,854	7,169,110.95
84	September 9, 2021	95,009	9,328,674.40
85	September 8, 2021	64,842	6,450,820.25
86	September 7, 2021	300,459	30,475,602.15
87	September 6, 2021	166,957	16,551,292.65
88	September 3, 2021	214,585	21,148,137.95
89	September 2, 2021	147,531	14,248,198.50
90	September 1, 2021	181,975	17,269,566.35
Total		20,258,335.0	2,119,025,516.10
VWAP		104.60	

Annexure II

10 Trading days' VWAP			
S. No.	Date	Volume	Value
1	January 10, 2022	490,816	57,522,814.05
2	January 7, 2022	218,634	24,934,539.35
3	January 6, 2022	187,687	21,377,942.55
4	January 5, 2022	183,745	20,542,754.95
5	January 4, 2022	99,593	11,241,986.15
6	January 3, 2022	262,974	30,152,148.15
7	December 31, 2021	375,036	43,012,809.55
8	December 30, 2021	119,020	13,046,754.40
9	December 29, 2021	205,269	22,953,144.60
10	December 28, 2021	636,022	73,202,972.10
Total		2,778,796	317,987,865.85
VWAP		114.43	

Annexure III - Valuation of Call Option

Particulars	
Date of Valuation	January 11, 2022
Proportion of Vest (%)	100.0%
Price of the Underlying Stock (INR)	114.43
Exercise / Strike Price (INR)	180.00
Expected Time to Expiration (years)	1.50
Volatility (%)	51.8%
Continuous Risk-free Interest Rate (%)	4.27%
Expected Dividend (%)	0.00%
Value of Call Option (INR)	14.2

Annexure IV - Valuation of Straight Bond

Particulars	INR						
	April 11, 2022	July 11, 2022	October 11, 2022	January 11, 2023	April 11, 2023	July 11, 2023	
Total Cash Flows	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Redemption Cash Flow							180.0
Total Cash Flows	4.1	4.1	4.1	4.1	4.1	4.1	184.1
Present Value Factor	1.0	0.9	0.9	0.9	0.8	0.8	0.8
Present Value of Cash Flows	3.9	3.8	3.6	3.5	3.4	3.4	147.3
Value per Straight Bond	165.5						

Annexure V - Summary

Particulars	Amount
Value of Call Option (INR)	14.2
Value of Straight bond (INR)	165.5
Value of OCD	179.6
Fair Value of OCD (Rounded Off)	180.0

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Annexure VI

The Management has informed us that there is no valuation methodology/formula prescribed in AOA.

Valuation as per Regulation 166A (1) of ICDR Regulations:

Market Price Method:

For the valuation as market price method, we have considered valuation.

Comparable Companies Method:

We have carried out the analysis of listed Comparable companies in the paint industry and observed that the comparable companies are larger in size in terms of revenue, market share, installed & utilization of capacity, widespread dealer network, strong brand presence and recall through huge & continuous spend on advertising and promotion etc.

The key highlights of competitors vis-à-vis Shalimar for FY 21 are as follows:

Particulars	Asian Paints	Berger	Kansai Nerolac	Akzo Nobel	Indigo	Shalimar
Installed Capacity (KLPA)	17,30,000	6,40,000	5,20,000	NA	1,95,000	69,000
Depots (in No)	138	164	104	52	34	30
Dealer Network (in Nos.)	70,000	30,000	27,500	15,000	13,800	5,300
Tinting system (in Nos.)	46,000	20,000	17,000	5,500	5,800	-400
A&SP Expense (% of Deco Sales)	4.0%	4.0%	6.0%	6.0%	11.0%	1.0%
EBITDA Margin	23.8%	18.1%	17.6%	14.6%	16.9%	2.7%

The EBITDA margin of comparable companies are ranging from 14% to 24% and advertisement and sales promotion (A&SP) expenses are ranging from 4% to 11% of revenue. As described in para 1.7 above, EBITDA margins for the Company has been negative with a marginal breakeven seen only in FY21. It can also be seen that; the A&SP expenses of Shalimar were also lower than 1% of revenue resulting in lower market penetration in all these years as compared to comparable companies. Further, the capacity utilization of the Company has been ~50% in last 3 years, due to working capital issues. We have not come across any comments/investor presentation about the future plans of the company to overcome the current situation, in the public domain.

Further we have analyzed the trading multiples of the Company vis-à-vis comparable companies for the last 5 years, the Company multiples were trading at substantial discount in comparison with its peers for more than 5 years, as follows:

EV/Revenue Multiple:

Particulars	FY17	FY18	FY19	FY20	FY21	TTM Sep 21*
Asian Paints Limited	5.4	6.2	6.9	8.3	10.9	11.5
Berger Paints India Limited	4.3	4.7	5.0	8.0	10.7	9.9
Kansai Nerolac Paints Limited	4.0	5.4	4.5	4.8	6.2	5.5
Akzo Nobel India Limited	2.5	2.8	2.6	3.5	4.0	3.3
Industry Median	4.2	5.1	4.7	6.4	8.4	7.7
Shalimar Paints Limited	1.1	2.2	1.8	1.5	2.1	2.0
Shalimar at Discount to Industry Median	72.6%	57.4%	62.9%	75.9%	75.5%	74.1%

*Prices considered till Valuation date

Market is factoring the operations, size, financial performance, market penetration of Shalimar in its market price by discounting its multiple to ~73% i.e., 5 years average discount to the Company's EV/Revenue multiple.

The price per equity share of the Company is INR 110.1/- based on TTM revenue till September 30, 2021 with 5 years' average discount to industry median multiple as stated above.

Comparable Transaction Method:

We have analysed the deals taken place in last two-three years in paint industry, there are three deals. The deals are related to unlisted companies, hence, there is limited availability of financial data. Couple of them are very small in size has been ignored and one of the deals is comparable in terms of business profile, however, it's not comparable to Shalimar's stage of business and current financial state. The deal is with new entrant in the market with deep pockets and aggressive marketing plans like standalone paint stores & shopee model etc. Further, as per information available in public domain one of its divisions i.e. industrial paint has already break even in short span of time. The continuous advertisement spend and sales promotion is essential for success in paint sector which is visible in the business strategy of the new entrant. Hence, we have not considered CTM method for our valuation.

Based on the above, valuation as per Regulation 166 A is arrived at INR 114.43/- per equity share.