

Valuation Report

Shalimar Paints Limited

February 2022



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Ref. No.: LM/Feb2-122/2022

February 02, 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 Determining the Conversion Price of Optionally Convertible Debentures of Shalimar Paints Limited for Preferential Allotment as per the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 as 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 the conversion price of its proposed issuance and allotment of Optionally Convertible Debentures (**"OCDs"**) which are optionally convertible into equity shares of the Company if the proposed investor decides to exercise the option to convert the OCDs into equity share(s) as per the terms of proposed issuance of the OCDs as mutually agreed between the Company and the proposed investor. Should the proposed investor decide to exercise its aforementioned option, the OCDs will be converted into equity shares at a pre-determined price (**"Conversion Price"**).

We understand that the Company is proposing to issue the OCDs to an identified investor on preferential issue and private placement basis (**"the Proposed Transaction"**) and the Client wants us to determine the Conversion Price as per Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 (referred as **"ICDR Regulations"** or **"SEBI (ICDR) Regulations, 2018"**) as amended from time to time.

We are pleased to present herewith our report on the same (**"Report"**). We enclose our Report providing our opinion as on January 11, 2022 (**"Valuation Date"**). The 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.

BDO Valuation Advisory LLP, an Indian limited liability partnership firm, with LLP Identity No. AAN9463, is a member of BDO International Limited, a UK company limited by guarantee and forms part of the International BDO network of independent member firms.



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 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 1,800 KLPA in FY 19 to 21,600 KLPA 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 net worth is diminishing y-o-y.

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2. Purpose of Valuation

- 2.1. The Company has appointed us to determine conversion price of OCDs issued as part of the Proposed Transaction, as per the ICDR Regulations.
- 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 Conversion Price.
- 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 Conversion Price as per ICDR Regulations. This valuation exercise and the 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 regulations and circulars issued by the Securities and Exchange Board of India ('**SEBI**') and for sharing it with the proposed investor. 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 OCDs (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 the SEBI, stock exchanges, regulatory/ statutory authorities, shareholders (if required), the proposed allottee and professional advisors of the Client. 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 the SEBI, stock exchanges and Ministry of Corporate Affairs etc., 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 have represented that the business activities of the Company have 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 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 the Conversion Price 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;
 - Considered ICDR Regulations.
 - BDO Val is enrolled with IOV Registered Valuers Foundation, which has recommended to follow IVS for undertaking valuation. We have considered the International Valuation Standards issued by International Valuation Standards Council ("IVS") and the specific pricing guidelines as per ICDR Regulations.
 - 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 Conversion Price 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 180.00 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 up to and including the date of redemption or conversion, as the case may be
Conversion Option	The Investor, at its sole discretion, has the right (but not the obligation) to convert the OCDs
Conversion Price	INR 180.00 per OCD
Redemption Price	INR 180.00 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. Determination of Conversion Price of OCDs

8.1. The equity shares of Shalimar are listed on the NSE and BSE. Therefore, we have referred to the ICDR Regulations to arrive at the equity price for the determination of the Conversion Price of OCDs.

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

“the tenure of the Convertible securities of the issuer shall not exceed eighteen months from the date of allotment.”

8.3. Regulation 163(4) of ICDR Regulations related to convertible securities is reproduced below:

The special resolution shall specify the relevant date on the basis of which price of the equity shares to be allotted on conversion or exchange of convertible securities shall be calculated.

8.4. Regulation 164(1) of the ICDR Regulations related to pricing guidelines for frequently traded equity shares as follows:

If the equity shares of the issuer have been listed on a recognized 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 recognized 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 recognized stock exchange during the two weeks preceding the relevant date.

8.5. 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 twelve calendar months preceding the relevant date, is at least ten per cent of the total number of shares of such class of shares of the issuer.

8.6. As per Regulation 161 - the 'relevant date' in case of preferential issue of equity shares is as below:

Relevant Date:

- 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.*

Further for OCDs, the Management has informed us that the relevant date shall be the date thirty days prior to the date on which the meeting of shareholders is proposed to be held to consider the proposed preferential issue (i.e., February 10, 2022) and therefore the relevant date is January 11, 2022.

8.7. The ICDR Regulations are silent about determination of conversion price of OCDs. However, it is pertinent to note that equity shares will be issued on conversion of OCDs. Hence, considering all above-mentioned regulations, equity share price has been determined in accordance with Regulation 164(1) of ICDR Regulations for determining the price of conversion of OCDs into equity shares in line with Regulation of 163(4) of ICDR Regulations.

8.8. **Determination of Equity Share Value**

- As stated above, the equity shares of the Company are listed on the NSE and BSE. Hence, the pricing regulations as prescribed for equity shares as per Regulation 164 (1) (refer para 8.4) is considered for arriving at the equity share price as per market price method.
- The volume of the equity shares of Shalimar traded on NSE & BSE fall within the meaning of 'frequently traded shares' under Regulation 164(5) of the ICDR Regulations, with maximum volume recorded at NSE for the specific period i.e., January 01, 2021 to December 31, 2021 (Please Refer Annexure I).
- 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 113.43/- as below:

Particulars	Price per share	Annexure
26 Weeks (A)	102.17	
2 Weeks (B)	113.43	
Higher of "A" or "B"	113.43	-

- 8.9. As per above, the floor price under the ICDR Regulations for conversion of OCDs into equity shares (if and when converted by the proposed allottee in accordance with the terms of the OCDs) as on the Valuation Date is determined as INR 113.43 (Equity Share of INR 2 face value each).

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9. Annexures

Annexure I: Volume of Frequently Traded Equity Shares

Particulars	NSE	BSE
No. of Shares Traded	78,628,613	13,127,523
Number of Shares Outstanding during the Aforesaid Period	54,300,259	54,300,259
Traded Volume (in %age)	144.8%	24.2%

Annexure II: Equity Share Price Calculation

S.no.	Weekly Ending Date	Weekly High of VWAP	Weekly Low of VWAP	Average	26 Weeks Average High/Low (NSE)	2 Weeks Average High/Low (NSE)
1	January 10, 2022	117.20	111.80	114.50	102.17	113.43
2	January 3, 2022	115.10	109.62	112.36		
3	December 27, 2021	114.26	107.12	110.69		
4	December 20, 2021	108.34	104.98	106.66		
5	December 13, 2021	108.25	105.83	107.04		
6	December 6, 2021	105.46	102.36	103.91		
7	November 29, 2021	111.41	101.39	106.40		
8	November 22, 2021	111.17	103.56	107.37		
9	November 15, 2021	97.05	95.53	96.29		
10	November 8, 2021	91.18	90.59	90.89		
11	November 1, 2021	94.10	91.12	92.61		
12	October 25, 2021	94.98	90.16	92.57		
13	October 18, 2021	97.91	96.46	97.19		
14	October 11, 2021	97.87	97.06	97.47		
15	October 4, 2021	97.43	93.17	95.30		
16	September 27, 2021	96.31	90.58	93.45		
17	September 20, 2021	97.53	94.53	96.03		
18	September 13, 2021	101.43	97.07	99.25		
19	September 6, 2021	99.14	94.88	97.01		
20	August 30, 2021	95.32	93.61	94.47		
21	August 23, 2021	104.19	96.14	100.17		
22	August 16, 2021	104.07	99.79	101.93		
23	August 9, 2021	110.82	107.69	109.26		
24	August 2, 2021	109.68	107.10	108.39		
25	July 26, 2021	113.11	111.64	112.38		
26	July 19, 2021	115.92	109.87	112.90		