8758074411 / 9484451600
casnehalshah@gmail.com

Snehal Shah & Associates
Chartered Accountants
920, Samanvay Silver,
B/s. Royal Orchid Hotel,
Munjmahuda Circle, Akota,
Vadodara, Gujarat-390020

December 16th 2019

To,
The Board of Directors
Surat Textile Mills Limited,
Tulsi Krupa Arcade, 6th Floor,
Near Aai Mata Chowk,
Puna-Kumbharia Road,
Dumbhal, Surat – 395010,
Gujarat

To,
The Board of Directors,
Vareli Trading Company Limited,
Dr Amichand Shah Wadi,
Rampura Tunki,
Surat – 395003,
Gujarat

Subject: Report dated 20th August 2019 issued by us recommending Share Exchange Ratio for the proposed scheme of Amalgamation of Vareli Trading Company Limited with Surat Textile Mills Limited in terms of SEBI Circular CFD/DIL3/CIR/2017/21 required by regulations of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 amended from time to time.

Dear Sir,

In continuation to our earlier report dated 20th August, 2019 and subsequent to the discussions we had with Company representative, please find enclosed addendum to the earlier valuation report.

Yours faithfully,

For **Snehal Shah & Associates**
Chartered Accountant & Registered Valuer

SNEHAL SHAH & ASSOCIATES
M.No.: 128640
Chartered Accountants

CA. Snehal Shah
Proprietor
M. No.: 128640
IBBI/RV/06/2019/11772

TABLE OF CONTENTS

SNEHAL SHAH & ASSOCIATES
M.No.: 128640
Chartered Accountants

A. PURPOSE OF ASSIGNMENT

Based on discussion with the Management, we understand that in order to simplify the shareholding structure and reduce shareholding tiers for the promoters of Surat Textile Mills Limited (hereinafter referred as "SMTL"), it is proposed that Vareli Trading Company Limited (hereinafter referred as "VTCL") will amalgamate into STML in accordance with the provisions of Sections 230 to 232 and other applicable provisions of the Companies Act 2013 (hereinafter referred to as "Scheme of Arrangement").

In this context, the Management of the Companies have requested us to issue a report containing recommendation of fair Share Exchange Ratio for the proposed amalgamation of VTCL into STML in terms of requirements laid down by the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 under Circular No. CFD/DIL3/CIR/2017/21 dated 10th March 2017 and as per Para 8 of the said Circular read with Regulation 158(1)(b) and Regulation 165 of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (SEBI ICDR Regulations).

B. PREMISE OF VALUATION

The Report has been prepared in compliance with the Valuation Standards issued by the Institute of Chartered Accountants of India and adopted by ICAI Registered Valuers Organisation.

C. SCOPE OF ASSIGNMENT & TERMS OF REFERENCE

Snehal Shah & Associates, Chartered Accountants, Vadodara has been appointed by the Company vide engagement letter dated 30th July 2019, to work out the proposed share exchange ratio between the two companies.

We have carried out the assignment based on the relevant information provided to us by the management of both the companies. We have also relied upon management's representation as well as other information and documentation provided to us by

SHAH & ASSOCIATES
M.No.: 128640
SNEHAL
Chartered Accountants

them. No responsibility is taken to update this report for events and circumstances occurring after the report date, that is 20^{th} August 2019.

D. DATE OF VALUATION

The date of valuation is 1^{st} April 2019 and the exchange ratio has been derived based on the financials of 31^{st} March 2019, being the intended operative/appointed date for the proposed amalgamation of VTCL with STML.

E. PRINCIPLE SOURCE OF INFORMATION

We have received and collected the information and data from the companies, deemed necessary for the purpose, which have been examined, studied and relied upon for the purpose.

Following are the information and data obtained by us:

- Audited Financial Statements of STML for the Financial Year ended on March 31, 2019, March 31, 2018 and March 31, 2017.
- Audited Financial Statements of VTCL for the Financial Year ended on March 31, 2019 March 31, 2018 and March 31, 2017.
- List of shareholders of VTCL and STML as at 31st March, 2019.
- Management certified draft scheme of amalgamation between VTCL and STML.
- Memorandum and Articles of Association of VTCL and STML
- Discussion with the management of VTCL and STML.

F. CIRCULATION OF REPORT

The information contained in our report is absolutely confidential. It is intended only for the sole use and information of the Companies, and only in connection with the proposed Amalgamation as aforesaid, including for the purpose of obtaining requisite approvals. It is to be noted that any reproduction, copying or otherwise quoting of this

SNEHAL SHAH & ASSOCIATES M.No.: 128640 Chartered Accountants report or any part thereof, other than in connection with the proposed Amalgamation as aforesaid, can be done only with our prior permission in writing.

G. OVERVIEW OF THE COMPANY

VARELI TRADING COMPANY LIMITED

- VTCL is a limited Company incorporated under the Companies Act, 1956 having its registered office at Dr. Amichand Shah Wadi, Rampura Tunki, Surat – 395003, Gujarat, India.
- VTCL is controlled by the individual Promoters of STML.
- The Share Capital of the VTCL as per the Audited Financial Statement dated March 31, 2019 is as under:

Authorized Share Capital	Amount (INR)
10,00,000 Equity Shares of Rs. 10/- each	1,00,00,000
80,00,000 1% Non-Cumulative Optionally Convertible Preference Shares of Rs. 10 each	8,00,00,000
Total	**9,00,00,000**
Issued, Subscribed and Paid up Share Capital	
1,48,906 Equity Shares of Rs. 10/- each fully paid up	14,89,060
Total	**14,89,060/-**

As on the date of this report, VTCL owns 7,75,80,026 equity shares of STML.

SURAT TEXTILE MILLS LIMITED

- STML is a public limited listed company originally incorporated under the Indian Companies Act 1913, having its registered office at Tulsi Krupa Arcade, 6th Floor, Near Aai Mata Chowk Puna-Kumbharia Road, Dumbhal, Surat – 395010, Gujarat, India.

SNEHAL SHAH & ASSOCIATES M.No.: 128640 Chartered Accountants

- STML is engaged in the business of manufacturing, cleaning, spinning, bleaching, knitting, dyeing in all kinds of chips and yarn, fibres and intermediaries, textiles, fabrics, etc. The equity shares of STML are listed on the Bombay Stock Exchange (BSE).

- The Share Capital of the STML as per the Audited Financial Statement dated March 31, 2019 is as under:

Authorized Share Capital	Amount (INR)
75,00,00,000 Equity Shares of Re. 1/- each	75,00,00,000/-
Total	**75,00,00,000/-**
Issued, Subscribed and Paid up Share Capital	
22,20,64,440 Equity Shares of Re. 1/- each	22,20,64,440/-

Out of the above, 7,75,80,026 equity shares are owned by VTCL as on the date of this report.

H. DISCLAIMER AND STATEMENT OF LIMITING CONDITIONS

- The report is based on the data and information provided in writing as well as verbally and during discussions, by the management of all the companies viz., VTCL and STML and other sources listed in the report. This information is assumed to be accurate and complete.

- We have not done any audit, investigation, due diligence or verification of any data as the same was beyond the scope of this exercise. No responsibility is accepted by us in this regard. However, during our evaluation nothing has come out to our attention that the data and information provided are materially or intentionally misstated or incorrect.

SNEHAL SHAH & ASSOCIATES • M.No.: 128640 • Chartered Accountants

- We have not physically verified the assets of the Companies as it is beyond the scope of assignment.

- We have accepted and assumed that all the material facts and information which have a bearing or impacts on the valuation/exchange ratio were provided by the managements of these companies.

- We have been informed by management that there are no environmental or toxic contamination problems, any significant lawsuits, or any other undisclosed contingent liabilities which may potentially affect the business, except as may be disclosed elsewhere in this report.

- The historical financial information about the company presented in this report is included solely for the purpose to arrive at value presented in this report, and it should not be used by anyone to obtain credit or for any other unintended purpose. Because of the limited purpose as mentioned in the report, it may be incomplete and may contain departures from generally accepted accounting principles prevailing in the country. We have not audited, reviewed or compiled the Financial Statements and express no assurance on them.

- We acknowledge that we have no present or contemplated financial interest in the Company. Our fees for this valuation are based upon our normal billing rates, and not contingent upon the results or the value of the business or in any other manner. We have no responsibility to modify this report for events and circumstances occurring subsequent to the date of this report.

- The valuation analyst, by reason of performing this valuation and preparing this report, is not to be required to give expert testimony nor to be in attendance in court or at any government hearing with reference to the matters contained herein, unless prior arrangements have been made with the analyst regarding such additional engagement.

SNEHAL SHAH & ASSOCIATES
M.No.: 128640
Chartered Accountants

I. VALUATION METHODOLOGY

There are 3 fundamental approaches to Valuation viz. Income Approach, Market Approach and Cost / Asset Approach.

Each approach uses different parameters / methodology and are used in different situations. A brief detail of all approaches is given as under:

Aspect	Income Approach	Market Approach	Cost / Asset Approach
Valuation principle applied	Discounts future cash flows to the present date.	Values of companies operating in the same industries are correlated.	Book Values or Realizable Values of Assets after Considering balance sheet.
Commonly Accepted Methods	Discounted Cash Flows (DCF).	• Comparable Companies Multiple. • Market Price Method	Adjusted Net Asset Value
Appropriate situations to which the method may be applied	DCF is commonly used to value businesses or equity interests. It is appropriate for use when the wealth generating capacity of the business is determinable, going concern assumption is valid and when forecasts are available.	Market Approach is used when forecasts are not available, a set of suitable comparable companies are available and going Concern assumption is valid. It is also used as a cross-check/ benchmark to DCF method.	The Cost Approach is used when going concern assumption is doubtful and liquidation is predominant or if the Company is unprofitable for the foreseeable future.

Valuation by its very nature, cannot be regarded as an exact science and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgment. Given the same set of facts and using the same assumptions, expert opinions may differ due to the number of separate judgment decisions. There

SNEHAL SHAH & ASSOCIATES
M.No.: 128640
Chartered Accountants

can therefore be no standard formulae to establish an indisputable value, although certain formulae are helpful in assessing reasonableness.

For the purpose of determining fair value, a valuer may therefore, use any of the approaches as per the generally / internationally accepted valuation methodologies which in its opinion are most appropriate based on the facts of each situation.

The objective and criterion for any judicious exchange ratio in amalgamation is that the shareholders of the Transferor Company should get at least same value of their holding and return on their investment in the Transferee Company too. Not only that, as far as possible, due care should also be given to the trend in future of their current growth rate in the value of their shareholding.

Similarly, the shareholders of the Transferee Company should also maintain their net worth and a reasonable return as they were having before the amalgamation. Moreover, they should also be getting a share in the future growth due to benefits of synergies of the amalgamation accruing post amalgamation.

The methods which we have used to arrive at the value of companies are discussed as under:

Discounted Cash Flows (DCF) Method

Under the DCF Method the projected free cash flows to the Company are discounted at the weighted average cost of capital. The sum of the discounted value of such free cash flows is the value of the Company. Using the DCF analysis involves determining of (i) Estimating the future free cash flows and (ii) appropriate discount rate to be applied to cash flows i.e. the cost of capital.

SNEHAL SHAH & ASSOCIATES • Chartered Accountants • M.No.: 128640

As the VTCL is having negligible revenue and almost non-operative, there are no possibilities to determine projections for future periods. Hence, we have not considered DCF method of valuation.

Market Price (MP) Method

The market price of an equity shares as quoted on a Stock Exchange is normally considered as the value of the equity shares of that Company where such quotations are arising from the shares being regularly and freely traded in, subject to the element of speculative support that may be inbuilt in the value of shares.

In the present case, equity shares of STML are listed on the BSE. However, the shares of STML are infrequently traded as per SEBI ICDR Regulations and shares of VTCL are not listed. Hence, value of companies under the Market Price Method cannot be determined.

Comparable Companies Multiple (CCM) Method

This Method involves valuation based on market multiples derived from prices of market comparable companies traded on active market or transaction multiples derived from prices paid for comparable transactions. This valuation is based on the principle that market valuations, taking place between informed buyers and sellers incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between circumstances.

We were unable to find similar transactions or multiples to arrive at the equity valuations of the Companies. Hence, we have not used this method for valuation.

Net Asset Value (NAV) Method

The asset-based valuation technique is based on the value of underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. This valuation approach is mainly used in case where the (i) asset base dominates

SNEHAL SHAH & ASSOCIATES
M.No.: 128640
Chartered Accountants

earning capability (ii) there are no intangible assets in the form of brands, trademarks etc and (iii) there is no future growth potential of the business.

Considering the present level of operations and VTCL's dependence on STML for revenue generation, we opine that the Asset Approach is best suitable to work out the exchange ratio between the two companies.

Additionally, as the VTCL's assets mainly comprises of investments in SMTL and it does not have any fixed assets, either tangible or intangible in its books, we have worked out the exchange ratio based on the book values.

J. RECOMMENDATION OF RATIO

Following is the current share capital structure of both the companies 31st March 2019.

Particulars	Amount (INR)
STML	
Issued, Subscribed and Paid up Share Capital	
22,20,64,440 Equity Shares of Re. 1/- each	22,20,64,440/-
No. of Shares held by VTCL out of above	7,75,80,026
VTCL	
Issued, Subscribed and Paid up Share Capital	
1,48,906 Equity Shares of Re. 10/- each	14,89,060/-

It is proposed that equivalent number of equity shares as held by the VTCL in STML should be allotted by the STML under the scheme of amalgamation to the equity shareholders of VTCL. Therefore, the exchange ratio under the proposed amalgamation is as under:

521 Equity share of Re. 1/- (Rupees One Only) each fully paid up of the STML for every 1 equity share of Rs. 10/- (Rupees Ten Only) each fully paid up of the VTCL.

The computation of Share Exchange Ratio as derived by us is given in Annexure -1, enclosed herewith.

SNEHAL SHAH & ASSOCIATES • Chartered Accountants • M.No.: 128640

Based on this, following will be the capital structure of STML post amalgamation:

Share holders	Existing	%	Additional issue of shares	Post Amalgamation	%
Shri Praful A. Shah (Ind)	2,78,30,471	12.53%	4,26,68,337	70,498,808	31.75%
Shri Praful A. Shah (HUF)	1,00,00,450	4.50%	521	10,000,971	4.50%
Smt. Shilpa P. Shah	1,00,15,450	4.51%	1,16,37,056	21,652,506	9.75%
Shri Alok P. Shah	1,00,15,000	4.51%	1,16,36,014	21,651,014	9.75%
Shri Suhail P. Shah	1,00,15,000	4.51%	1,16,37,056	21,652,056	9.75%
Shri Alok P. Shah (HUF)	-	0.00%	521	521	0.00%
Smt. Deepika A. Shah	-	0.00%	521	521	0.00%
Palomar Textiles Ltd.	65,45,820	2.95%	-	65,45,820	2.95%
Introscope Properties	1,700	0.00%	-	1,700	0.00%
Vareli Trading Co. Ltd.	7,75,80,026	34.94%	-7,75,80,026	-	0.00%
Garden Silk Mills Ltd.	1,45,00,000	6.53%	-	1,45,00,000	6.53%
Others	5,55,60,523	25.02%	-	5,55,60,523	25.02%
	22,20,64,440	**100.00%**	**-**	**22,20,64,440**	**100.00%**

We believe that the above ratio is fair and equitable considering that all the shareholders of VTCL are and will, upon amalgamation, remain ultimate beneficial owners in STML in the same ratio (inter-se) as they hold shares prior to the amalgamation and that the interest of other shareholders in STML remains unaffected.

SNEHAL SHAH & ASSOCIATES
M.No.: 128640
Chartered Accountants

Annexure -1

Computation of Share Exchange Ratio

(Amount in Rs.)

Valuation Approach	Surat Textile Mills Limited		Vareli Trading Company Limited	
	Value per Share	**Weight (%)**	**Value per Share**	**Weight (%)**
Asset Approach (NAV Method)	77,580,026	100	148,906	100
Income Approach (DCF Method)	NA	NA	NA	NA
Market Approach (CCM Method)	NA	NA	NA	NA
Relative value per share	77,580,026	100	148,906	100
Exchange ratio	**521**		**1**	

In light of the above and on the consideration of all the relevant factors discussed in the **para – I** of the report, we recommend following share exchange ratio under the proposed amalgamation of STML and VTCL:

521 Equity share of Re. 1/- (Rupees One Only) each fully paid up of the STML for every 1 equity share of Rs. 10/- (Rupees Ten Only) each fully paid up of the VTCL.

Note:

1. *As the VTCL is having negligible revenue and almost non-operative, there are no possibilities to determine projections for future periods. Hence, we have not considered DCF method of valuation.*
2. *We were unable to find similar transactions or multiples to arrive at the equity valuations of the Companies. Hence, we have not used Comparable Companies Multiple (CCM) Method for valuation.*
3. *Considering the present level of operations and VTCL's dependence on STML for revenue generation, the Asset Approach is best suitable to work out the exchange ratio between the two companies and hence we have used this approach for valuation.*

***