



FAIRNESS OPINION REPORT

On

the Scheme of Arrangement

between

Star Ferro and Cement Limited

and

Shyam Century Ferrous Limited

and

their respective shareholders

MERCHANT BANKERS' REPORT

August 25, 2014



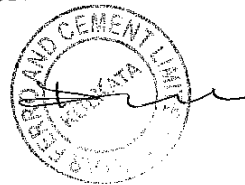
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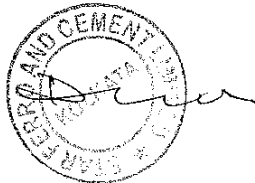
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1. INTRODUCTION

Star Ferro and Cement Limited ("SFCL"/"the Company") is a public limited company incorporated under the Companies Act, 1956, presently engaged in and having interests in Ferro Alloys, Cement and Power businesses directly and through its subsidiaries. The equity shares of SFCL are listed on the BSE Limited and National Stock Exchange of India Limited.

SFCL's main businesses comprise of:

1. Manufacturing of ferro alloys, power plant at Byrnihat in the State of Meghalaya and investment in 83,58,998 Equity Shares of Rs.10/- each (constituting 48.80% of the total paid-up capital) of Meghalaya Power Limited (hereinafter referred to as Ferro Alloys Division).
2. Manufacturing of cement through its subsidiary (hereinafter referred to as Cement Division).

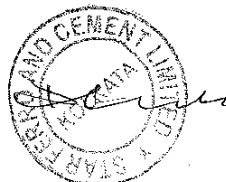
SFCL has manufacturing facility of ferro alloys and cement in the State of Meghalaya. SFCL undertakes its cement business through its subsidiary Cement Manufacturing Company Limited ("CMCL") and holds 29,547,500 Equity Shares of Rs10/- each of CMCL constituting 70.48% of the total Issued, Subscribed and Paid-up Share Capital of CMCL. SFCL and CMCL also hold 48.80% and 51.00% aggregating to 99.80% shares of Meghalaya Power Limited ("MPL") having a power plant at Lumishnong in the State of Meghalaya. Power generated from this unit is supplied to CMCL to meet its present and expanded capacities at Meghalaya.

The present day nature and size of the aforesaid two businesses of SFCL are such that the divergent considerations, factors, financials, risks and rewards applicable to the running, growth and development of such businesses are required to be addressed with greater focus at all levels. Such divergent natures of the said businesses are also such that they are required to be evaluated and looked upon separately. The said businesses have good potential for funding, running, growth and development thereof as independent businesses.

Accordingly, the management of SFCL with strategic intent of restructuring and development of each of the businesses, intends to demerge its 'Ferro Alloys Division' to a separate company i.e. Shyam Century Ferrous Limited (SCFL) as a going concern with effect from appointed date April 1, 2014. SCFL is a wholly owned subsidiary of SFCL. Post demerger, SFCL will continue to be a holding company of CMCL having Cement Division.

The demerger is proposed to be carried out through a Scheme of Demerger under Sections 391 to 394 of the Companies Act, 1956. Upon such provisions of the Companies Act, 1956 being re-enacted by enforcement of provisions of the Companies Act, 2013, all references shall, unless a different intention appears, be construed as references to the provisions so re-enacted.

Through the proposed Scheme of Arrangement under Sections 391 to 394 of the Companies Act, 1956, the Ferro-Alloys Division of SFCL would be demerged to SCFL. In consideration of demerger, SCFL would issue and allot shares to the shareholders of SFCL. After demerger, the shares of the SCFL will be listed on the same stock exchanges on which shares of SFCL are listed. All the existing shares of SCFL held by the SFCL (5,00,000 Equity Shares of Re.1/- each) shall be cancelled upon the new shares in SCFL being issued to the shareholders of SFCL. Further, post demerger, SFCL would continue to carry on the manufacturing of cement through CMCL.



"Ferro Alloys Division" means the entire undertaking of SFCL constituted in the business and interests of SFCL in manufacture of ferro alloys, including captive power plants attached thereto and comprising of:

- i. Ferro alloys and power plant at Byrnihat in the State of Meghalaya,
- ii. 83,58,998 Equity Shares of Rs.10/- each in MPL constituting 48.80% of the total paid-up capital of MPL

and shall mean and include all property, rights and powers and all debts, liabilities, duties and obligations of SFCL pertaining to the Ferro Alloys Division.

The entitlement ratio for the demerger of Ferro Alloys Division has been decided based on the report prepared by Singhi & Co., Chartered Accountants (the "Valuer").

For the purpose of ascertaining the fairness of the entitlement ratio in case of demerger of Ferro Alloys Division, SFCL has appointed Microsec Capital Limited ("Microsec") as an Independent Merchant Banker to furnish a fairness opinion on the entitlement ratio for demerger and consideration for transfer recommended by the Valuer.

2. PURPOSE OF FAIRNESS OPINION

As per clause 24(h) of the Listing Agreement, the companies going through any arrangement/amalgamation/merger/reconstruction/reduction of capital, etc. are required to obtain a "Fairness Opinion" from an Independent Merchant Banker relating to the valuation of assets/ shares done by the Valuer.

3. LEGAL DISCLAIMER

The Company has requested us to issue a Fairness Opinion Report on the Entitlement Ratio Report given by Singhi & Co., Chartered Accountants, on demerger of Ferro Alloys Division to SCFL. In preparing this Fairness Opinion Report, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information provided to us.

In furnishing this Report, we reserve the right to amend or replace the Report at any time. Our views are necessarily based on economic, market, and other conditions currently in effect, and the information made available to us, as of the date hereof. It should be understood that subsequent developments may affect our views and that we do not have any obligation to update, revise, or reaffirm the views expressed in the Report. Nothing contained within the Report is or should be relied upon as a promise or representation as to the future.

The Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein.

Neither the report nor its contents may be referred to or quoted in any registration, statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties, other than in connection with the Proposed Demerger.



4. SOURCES OF INFORMATION RELIED UPON BY US FOR THE FAIRNESS OPINION

We have prepared this Fairness Opinion Report on the basis of the following information provided to us:

- Valuation Report issued by Singhi & Co., Chartered Accountants;
- Draft Scheme of Arrangement;
- Audited Annual Financial statements of SFCL and SCFL for the financial year 2013-14;
- Other data collated by us from publicly available sources.

We have also obtained necessary explanations and information, which we believed were relevant to the present exercise, from the executives and representatives of the companies.

5. BRIEF BACKGROUND OF THE COMPANIES UNDER REFERENCE

Star Ferro and Cement Limited ("SFCL"/"the Company") is a public limited company incorporated under the Companies Act, 1956, presently engaged in and having interests in Ferro Alloys, Cement and Power businesses directly and through its subsidiaries. The equity shares of SFCL are listed on the BSE Limited and National Stock Exchange of India Limited.

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Shyam Century Ferrous Limited (SCFL) SCFL was incorporated on April 12, 2011 under the Companies Act, 1956 and is a wholly owned subsidiary of SFCL, having its registered office at 6, Lyons Range, 1st Floor, Kolkata- 700 001. The registered office of SCFL is being shifted to Village Lumshnong, Post Office Khaliehriat, District East Jaintia Hills, Meghalaya 793 210. SCFL has a paid-up capital of Rs.5,00,000/-.



6. RATIONALE ADOPTED BY THE VALUER FOR ASCERTAINING THE ENTITLEMENT RATIO

The value of Ferro Alloys Division has been arrived at by considering the book value of the assets and liabilities pertaining to the said division as on March 31, 2014.

The net asset value of the Ferro Alloys Division considering the book value of assets and liabilities, as per the Audited Financial Statements as on March 31, 2014, is approximately Rs. 8,304.49 Lacs. Post-demerger, the net asset value of other than Ferro Alloys Division, which will continue with SFCL, considering the book value of assets and liabilities as per the Audited Financial Statements, is approximately Rs. 3,146.47 Lacs as at March 31, 2014.

The right of shareholders of SFCL will not be affected even after demerger of Ferro Alloys Division, because the shareholders of SFCL will be allotted shares of SCFL in the same proportion of their holding in SFCL.

Consequent to the demerger, SCFL will issue and allot equity shares to the shareholders of SFCL in the same proportion of their holding in SFCL. The existing share of SCFL will be cancelled pursuant to the said Scheme of Demerger.

Further, after the demerger, the shares of the SCFL will be listed on the stock exchanges where the existing shares of SFCL are listed.

7. ENTITLEMENT RATIO

Based on the aforesaid, the Valuer has arrived at the Entitlement Ratio, for Ferro Alloys Division, of 1(One) : 1 (One) i.e. the shareholders of Star Ferro and Cement Limited will receive 1 (One) equity share of Re.1/- each of Shyam Century Ferrous Limited credited as fully paid-up for every 1 (One) equity share of Re.1/- each fully paid-up held by them in Star Ferro and Cement Limited.

8. OPINION ON ENTITLEMENT RATIO

Based on the information, material and data made available to us, including the Report of the Valuer and the working thereto, in our opinion the Entitlement Ratio recommended by the Valuer is fair and proper.

For Microsec Capital Limited

Manav Goenka

Manav Goenka
Vice President
Investment Banking



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