

**REPORT ON SHARE ENTITLEMENT  
RATIO  
FOR  
MIL INDUSTRIES LIMITED  
(MIL)**

Purpose – Demerger of PTFE Division of MIL into MIAL  
(Under “Scheme of Arrangement” U/s 230-232 of Companies  
Act)

DEC 2019

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**MIL INDUSTRIES LIMITED**

**Date : 2nd Dec 2019**

**To**

**The Board of Directors**

**MIL Industries Limited (MIL – “Demerging” Company)**

Plot No 25A, SIDCO Industrial Estate,

Ambattur, Chennai - 600098

**The Board of Directors**

**MIL Industries and Aerospace Limited (MIAL – “Resultant” Company)**

Plot No 25A, SIDCO Industrial Estate,

Ambattur, Chennai – 600098

Dear Sirs.,

**Sub: Report on Share entitlement ratio pursuant to demerger of PTFE division of MIL into MIAL**

**1. CONTEXT:**

1.1: We refer to the engagement letter dated 29<sup>th</sup> Nov 2019 and the subsequent discussions we had with you wherein you had requested our report on the ratio of allotment of equity shares of the resultant company, MIAL, to be issued to the shareholders of MIL in connection with the proposed demerger of the PTFE division from MIL as part of scheme of arrangement with 15<sup>th</sup> Nov 2019 as the appointed date.

**2. BACKGROUND:**

2.1 MIL Industries Limited (MIL) was incorporated on 11-02-1966 under Companies Act 1956 bearing CIN No L25199TN1966PLC005397 registered at Chennai. The registered office of the Company is located at Plot No 25A, SIDCO Industrial Estate, Ambattur, Chennai - 600098. MIL is engaged in the business of corrosion resistant lining of equipment used in chemical and other allied industries. The equipment of these industries are lined using either rubber or Poly Tetra Fluoro Ethylene (PTFE). The Company has two separate manufacturing facilities for the above, namely –

<b>Division</b>	<b>Description</b>
RL – Rubber Lining	Manufacturing of Rubber lining products, Trading of rubber lining materials and Rubber Linings
PTFE – Poly Tetra Fluoro Ethylene	Manufacturing of PTFE Lined pipes and fittings and PTFE Products.

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Each of the two divisions namely RL and PTFE are treated as separate business segments as required under the relevant Ind AS and the segment results are being disclosed as required by the said standard.

In view of the varied risks and other factors, the Management feels that the RL and the PTFE divisions should be divested and the PTFE business should be demerged into a new company, MIL Industries and Aerospace Limited (MIAL).

2.2 MIL was originally listed on the Madras Stock Exchange. Consequent to the closure of the Madras Stock Exchange it was transferred to the dissemination board and has effective February 2018 got itself listed on the Metropolitan stock Exchange. Though MIL is a listed company, there has been no trading in the shares for the last so many years and hence the shares of the company are to be treated as an infrequently traded shares.

2.3 The Authorized, issued and paid up share capital of MIL as on as on the appointed date, i.e 15<sup>th</sup> Nov 2019 is as under –

<b>Share Capital</b>	<b>Amount</b>
Authorized Share Capital	
49,00,000 Equity shares of Rs.10/- each	4,90,00,000
1,00,000 Preference shares of Rs.10/- each	10,00,000
2,50,000 Cum Preference shares of Rs.10/- each	25,00,000
<b>TOTAL</b>	<b>5,25,00,000</b>
Issued, Subscribed and Paid up share capital (31,50,000 Equity shares of Rs.10/- Each)	3,15,00,000
<b>TOTAL</b>	<b>3,15,00,000</b>

Subsequent to the above date, there has been no change in the issued, Subscribed and Paid up share capital of MIL. The Equity Shares of the Demerged Company are listed in the Metropolitan Stock Exchange.

2.4 MIL Industries and Aerospace Limited (MIAL) is a company incorporated on 17<sup>th</sup> April 2018 having its registered office at Plot No 25A, SIDCO Industrial Estate, Ambattur, Chennai – 600098 bearing CIN No U74999TN2018PLC122159. The Company is formed for the purpose of carrying on anti corrosive lining of equipment using PTFE and other related activities such as aerospace industry components and other specialized products.

2.5 The Authorized, issued and paid up share capital of MIAL as on the appointed date, i.e 15<sup>th</sup> Nov 2019 is as under –

<b>Share Capital</b>	<b>Amount</b>
Authorized Share Capital	

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15,00,000 Equity shares of Rs.10/- each	1,50,00,000
5,00,000 Redeemable Preference shares of Rs.10/- each	50,00,000
<b>TOTAL</b>	<b>2,00,00,000</b>
Issued, Subscribed and Paid up share capital (2,00,000 Equity shares of Rs.10/- Each)	20,00,000
<b>TOTAL</b>	<b>20,00,000</b>

Subsequent to the above date, there has been no change in the issued, Subscribed and Paid up share capital of MIL. The Equity shares of the resulting company are presently not listed on any stock exchange.

2.6 The entire issued share capital of MIAL (The Resulting company) is held by MIL (The Demerged company) as on the appointed date and MIAL is thus wholly owned subsidiary of MIL.

### **3. VALUATION OBJECTIVE:**

3.1 We understand that the management of MIL (Demerged Company) is contemplating to demerge its PTFE division to its wholly owned Subsidiary, MIAL (Resulting Company) vide a Scheme of arrangement under Sec 230 to 232 and other applicable provisions of Companies Act, 2013 (Hereinafter referred to as "Draft Scheme").

3.2 In connection with the demerger and the information made available by the management of MIL, The management had asked **Mr. VINAY TOTLA, REGISTERED VALUER** to provide a report on the ratio of allotment of equity shares of MIAL (The resulting company) to be issued to the shareholders of MIL (Demerged Company). As per the draft scheme provided to us, The appointed date for the demerger is 15<sup>th</sup> Nov 2019.

3.3 we understand that consequent to the demerger, The existing share capital of MIAL held by MIL will stand cancelled pursuant to the draft scheme.

3.4 We understand that consequent to the demerger, the beneficial economic interest of the shareholders of MIL (Demerged Company) in the paid up equity share capital of MIAL (Resulting Company) would be the same as it is in the equity share capital of MIL (Demerged Company)

3.5 As per the draft scheme and the discussion with the management of MIL, We understand that upon demerger, transfer and vesting of demerged undertaking in MIAL, Shares of MIAL will be issued to the shareholders of MIL such that MIAL and MIL will have mirror shareholding upon issue of shares.

### **4. SOURCES OF INFORMATION:**

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For the purpose of this valuation exercise, We have relied upon the following information/ Documents made available to us by the management of both the companies and the information available in public domain -

- a) Draft scheme of arrangement between MIL and MIAL and their respective shareholders to be adopted at their respective board meetings.
- b) Audited Financial statements for FY ending March 2018 and March 2019 of both the companies.
- c) Audited Interim Financial statements of both the companies as on 15<sup>th</sup> Nov 2019 certified by the management and Auditor on 2<sup>nd</sup> Dec 2019.
- d) CA certificate dated 2<sup>nd</sup> Dec 2019 for the confirmation of MIAL being wholly owned subsidiary of MIL w.e.f 12<sup>th</sup> Nov 2019.
- e) CA certified Networth certificates with the breakup of assets and Liabilities of both MIL and MIAL pre and post demerger as on the appointed date ,i.e 15<sup>th</sup> Nov 2019.
- f) Information on Business and Company profile.
- g) MOA and AOA of both the Demerged and Resultant companies.

We have also obtained necessary information and explanations which we believe were relevant to the present exercise, from the representatives of MIL. It may be mentioned that MIL has been provided opportunity to review the draft report (Excluding our valuation analysis and recommendation) for the current job as part of our standard practice to make sure that the factual inaccuracies are avoided in our report.

### **5. SHARE SWAP RATIO:**

5.1 Considering the following aspects –

- a) MIL is wholly owned subsidiary (WOS) of MIL
- b) Upon the draft scheme becoming effective, existing shareholding of MIL in MIAL shall stand cancelled without any payment (Refer to share cancellation clauses -5.1( c ) in draft scheme).
- c) Upon the draft scheme becoming effective, The shareholders of MIL would be entitled to shares in MIAL in the same proportion in which they own shares in MIL
- d) Upon the draft scheme becoming effective, the beneficial economic interest of the shareholders of MIL in the paid up equity share capital of MIAL would be the same as it is in the paid up equity share capital of MIL,

the determination of swap ratio would not have any economic impact on the ultimate value of the shareholders of MIL and the proposed demerger of demerged business of MIL in MIAL will be value neutral to MIL's shareholders. Hence, The determination of swap ratio of companies is at best an internal arrangement between companies and

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its shareholders and a detailed valuation of the companies to determine the swap ratio would not be relevant in the present case.

5.2 We have been informed by the management of MIL and as observed from the audited interim financial statements as on 15<sup>th</sup> Nov 2019 and the NW certificates issued by the statutory auditor of both the companies, that the Net asset value of RL Division is about **Rs.1620.72 Lacs as on 15<sup>th</sup> Nov 2019**. Similarly, net asset value of PTFE Division as on 15<sup>th</sup> Nov 2019 is **Rs.1720.17 lacs**. Having regard to the size of net assets of both the divisions, The requirement of capital of PTFE Division and other relevant factors, The management had proposed share entitlement ratio of 1 (one) fully paid equity share of face value of Rs.10/- each of MIAL for every 1 (one) fully paid equity share of face value of Rs.10/- each held in MIL (Refer clause 4 (a) of the scheme) .

5.3 We have been informed by the management of MIAL that upon the scheme being approved, the authorized capital of MIAL would be increased to Rs.3,50,00,000/- (Rupees three crore fifty lakhs) divided into 35,00,000 (Thirty five lakhs) Equity Shares of Rs.10 each (Refer Clause 3.1 of the scheme).

5.4 Based on the aforesaid, in particular read with 5.1 and 5.3 above and the caveats below, and considering that all the shareholders of MIL are and will, upon demerger, become shareholders of MIAL holding beneficial economic interest in the same proportion as they hold in MIL, the following proposed share entitlement ratio is fair to the shareholders of MIL in relation to the demerger –

***“1 (one) fully paid equity share of face value of Rs.10/- each of MIAL for every 1 (one) fully paid equity share of face value of Rs.10/- each held in MIL”***

5.5 Our report on the share entitlement ratio is based on the current equity share capital structure of the companies and proposed cancellation of existing share capital of MIL. Any variation in the equity share capital structure of the companies apart from the above mentioned prior to the scheme of arrangement becoming effective may have an impact on the share entitlement ratio.

5.6 Further we understand that the exchange ratio determination in the instant case is in keeping with similar schemes permitted by the Bombay Stock exchange in April 2019, and by both BSE and NSE in 2014, wherein the resulting company is 100% subsidiary company of the Demerging company (WOS of demerging company). These have also been reviewed by us in this regard.

## **6. CAVEATS, LIMITATIONS AND DISCLAIMERS**

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**6.1** We have relied upon the information, data and explanations set out at para 3 above, for the purpose of reporting on the ratio of allotment of equity shares of MIAL to the shareholders of MIL in connection with the proposed demerger. Our recommendation is dependent upon the information furnished to us being complete in all material respects.

**6.2** For the purpose of opining on the share entitlement ratio, we have used financial and other information provided by the management, which we believe to be reliable and our conclusions are dependent on such information being complete and accurate in all material respects. Our scope of work does not enable us to accept responsibility for the accuracy and completeness of the financial and other information provided to us by the management. We have, therefore, not carried out any due diligence review, independent audit or other test or validation of such financial and other information to establish the accuracy or sufficiency of the financial statements referred to above or of the information, explanations and representations provided to us. We have thus relied upon the audits carried out by the statutory auditors of the financials of MIL provided to us. Accordingly, we do not express any opinion or any other form of assurance thereon and accept no responsibility for the same.

**6.3** The PTFE division is proposed to be demerged into MIAL with effect from the appointed date, i.e 15<sup>th</sup> Nov 2019. The management has explained that the business of the PTFE division would be carried on in the due course of business till the appointed date and subsequently till the demerger scheme is approved. The management had further represented that there would be no change in the structure of the paid-up equity share capital of MIL and MIAL till the appointed date and subsequently, till the demerger scheme is approved.

**6.4** We have assumed that the final terms of the scheme of demerger will not vary from those set forth in the draft reviewed by us.

**6.5** This report has been prepared for the Board of Directors of MIL and MIAL and solely for the purpose of recommending the share entitlement ratio for the issue of equity shares of MIAL to the shareholders of MIL in consideration for the demerger of PTFE division of MIL.

**6.6** Our report is not nor should it be construed as our opining as certifying the compliance of the proposed demerger of PTFE division of MIL with the provisions of any law including Companies Act, FEMA and regulations thereunder, Income Tax Act, SEBI and regulations thereunder, or as regards any legal implications or issue arising from such proposed demerger.

**6.7** We have not opined on the fairness of any terms and conditions of the scheme other than the Exchange Ratio. Further, We have neither opined nor

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advised on the viability or legality of the proposed structure, Mechanics and terms and conditions of the scheme. We have not provided any opinion whatsoever as to any scenario where only some (and not all) parts of the scheme take effect (including on account of non receipt of governmental approvals). Our opinion is not intended to be and does not constitute a recommendation to any shareholder, creditor or other person of MIL and MIAL as to how such shareholder, creditor or other person should vote or act on any matters relating to the proposed scheme.

**6.8** The information contained herein and our report is intended only for the sole use and information of the MIL and MIAL, and only in connection with the proposed demerger as aforesaid including for the purpose of obtaining requisite approvals. It is to be noted that any reproduction, copying or otherwise quoting of this report or any part thereof, other than in connection with the proposed demerger as aforesaid, can be done only with our prior permission in writing.

**6.9** No investigation on the MIL and MIAL claims to title of assets has been made for the purpose of this report and their claim to such rights has been assumed to be valid. Therefore, No responsibility is assumed for matters of legal nature.

**6.10** We assume no responsibility for any errors in the information furnished by MIL and MIAL and the consequential impact on the present exercise.

**6.11** By reason of delivering this opinion, neither MIL and MIAL nor its partners, directors, manager, employees or agents are required to give expert testimony nor are required to be in attendance in any court or any governmental or regulatory hearing with reference to the matter dealt with in this opinion, unless prior arrangement has been made with MIL and MIAL in that regard as an additional engagement.

**6.12** We acknowledge that we have no present or contemplated financial interest in the companies. We have been retained by MIL and MIAL to act as advisor to the Board of Directors of MIL and MIAL with respect to this opinion and will receive the fee for our services in connection with the delivery of this opinion. Our fee for our services will be payable on delivery of this opinion and is not contingent upon the successful completion of the demerger.

**6.13** We and our affiliates in the past may have provided services to MIL and MIAL and its subsidiaries unrelated to the proposed demerger, for which services we and such affiliates received professional fees. Further, we and our affiliates may maintain professional relationship with MIL and MIAL and its subsidiaries and their respective affiliates.



**MIL INDUSTRIES LIMITED**

**6.14** Further, MIL and MIAL respectively agrees to indemnify and hold harmless MIL and MIAL, its directors, partners, shareholders, manager, employees and agents from and against any and all costs, expenses, losses, claims, demands, actions, suits or proceedings paid, incurred or suffered by or made or initiated against them or any of them by any third party arising out of or in connection with this engagement, except to the extent that any such expenses, losses, claims, demands, actions, suits or proceedings arise from our willful default.

**7. DISTRIBUTION OF OUR REPORT**

**7.1** This letter report is prepared for the Board of Directors of MIL and MIAL to the extent mandatorily required under applicable laws of India may be produced before judicial, regulatory or Government authorities, in connection with the transaction envisaged in the draft scheme.

**7.2** 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 MIL and MIAL, their directors, employees or agents. In no circumstances, shall our liability relating to the service provided in connection with the engagement set out in this report exceed the amount paid to us in respect of the fees charged for these services.

Thanking You,

Your Sincerely,



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**Date: 2nd Dec 2019**

**Place: Hyderabad**

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