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Annexure 3

STRICTLY PRIVATE & CONFIDENTIAL

02 March 2017

To,

The Board of Directors,
Dharamsi Morarji Chemical Company Limited
317/21, Prospect Chambers,
D N Road, Fort,
Mumbai – 400001.

The Board of Directors,
Borax Morarji Limited
317/21, Prospect Chambers,
D N Road, Fort,
Mumbai – 400001.

Re: Recommendation of fair share exchange ratio for the proposed amalgamation of Borax Morarji Limited with Dharamsi Morarji Chemical Company Limited.

Dear Sir(s),

As requested by the Management of Dharamsi Morarji Chemical Company Limited and Borax Morarji Limited (hereinafter collectively referred to as the "Management"), we have carried out relative valuation of equity shares of Dharamsi Morarji Chemical Company Limited (hereinafter referred to as "DMCCL") and Borax Morarji Limited (hereinafter referred to as "BML") to recommend fair share exchange ratio for the proposed amalgamation of BML with DMCCL (hereinafter collectively referred to as the "Companies").

1. PURPOSE OF VALUATION

1.1 We have been informed that the Management is considering a proposal for the amalgamation of BML with DMCC (hereinafter referred to as "amalgamation") pursuant to the provisions of Sections 230 to 232 read with Section 52 and other applicable provisions of the Companies Act 2013, including rules and regulations made thereunder (hereinafter referred to as "Scheme"). Subject to necessary approvals, BML would be amalgamated with DMCCL, with effect from Appointed Date of April 01, 2016.

1.2 In consideration for the Amalgamation, equity shares of DMCCL would be issued to the shareholders of BML.

1.3 In this regards, SSPA & Co., Chartered Accountants ("SSPA") has been appointed by the

Companies to carry out the relative valuation of equity shares of BML and DMCCL to recommend the fair share exchange ratio.

2. **BRIEF BACKGROUND OF THE COMPANIES**

2.1 **DHARAMSI MORARJI CHEMICAL COMPANY LIMITED**

2.1.1 DMCCL was incorporated as on September 25, 1919 and its registered office is located at 317/21, Prospect Chambers, D N Road, Fort, Mumbai – 400001, Maharashtra.

2.1.2 DMCCL is primarily engaged in the business of manufacturing Sulphuric acid, oleum, Chlorosulphonic acid and other commodity chemicals as also various specialty chemicals and preparations etc. used in pigments, varnishes, dyes and dyes intermediates and drugs and pharmaceutical industry. The equity shares of the company are listed on BSE Limited.

2.1.3 In December-2016, DMCCL made a preferential allotment of 5,88,930 equity shares of INR 10 each at a premium of INR 91.88 each to its promoters amounting to INR 6 crores. The proceeds from the above issue were utilized to redeem 6,00,000 8% Redeemable Cumulative non-convertible Preference Shares of INR 100 each aggregating to INR 6 crores and the preference shareholders waived off their right to receive cumulative dividend thereon.

2.1.4 The outstanding preference share capital of DMCCL as on date is as below:

- 2,80,000 2.5% Redeemable Cumulative non-convertible Preference Shares of INR 100 each aggregating to INR 2.80 crores

2.2 **BORAX MORARJI LIMITED**

2.2.1 BML was incorporated on August 27, 1963 and its registered office is located at 317/21, Prospect Chambers, D N Road, Fort, Mumbai – 400001, Maharashtra.

2.2.2 BML is primarily engaged in the business of manufacturing and dealing in Borax and Boric Acid and other Boron specialty chemicals. Equity shares of the company are listed on BSE Limited.

2.2.3 As on March 31, 2016, BML had 90,00,000 8% Cumulative Non-Convertible Preference shares of INR 10 each aggregating to INR 9 crores. Pursuant to the Scheme, the preference shareholders shall be allotted equity shares of DMCCL in lieu of preference shares and the preference shareholders shall waive off their right to receive the outstanding cumulative dividend on these Preference Shares.

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3. EXCLUSIONS AND LIMITATIONS

3.1 Our report is subject to the scope limitations detailed hereinafter. As such, the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein.

3.2 Valuation is not a precise science and the conclusions arrived at in many cases will, of necessity, be subjective and dependent on the exercise of individual judgment. There is, therefore, no indisputable single value. While SSPA has provided an assessment of the value based on the information available, application of certain formulae and within the scope and constraints of our engagement, others may place a different value to the same.

3.3 No investigation of the Companies' claim to title of assets has been made for the purpose of this valuation and their claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature.

3.4 Our work does not constitute an audit or certification of the historical financial statements / prospective results including the working results of the Companies referred to in this report. Accordingly, we are unable to and do not express an opinion on the fairness or accuracy of any financial information referred to in this report. Valuation analysis and results are specific to the purpose of valuation mentioned in the report is as per agreed terms of our engagement. It may not be valid or used for any other purpose or as at any other date. Also, it may not be valid if done on behalf of any other entity.

3.5 A valuation of this nature involves consideration of various factors including those impacted by prevailing stock market trends in general and industry trends in particular. This report is issued on the understanding that the Companies have drawn our attention to all material information, which they are aware of concerning the financial position of the Companies and any other matter, which may have an impact on our opinion, on the fair value of shares of the Companies for the purpose of the proposed amalgamation, including any significant changes that have taken place or are likely to take place in the financial position of the Companies, subsequent to the report date. We have no responsibility to update this report for events and circumstances occurring

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after the date of this report.

3.6 In the course of the valuation, we were provided with both written and verbal information. We have however, evaluated the information provided to us by the Management through broad inquiry, analysis and review but have not carried out a due diligence or audit of the information provided for the purpose of this engagement. Our conclusions are based on the assumptions, forecasts and other information given by/on behalf of the Management. We assume no responsibility for any errors in the above information furnished by the Management and consequential impact on the present exercise.

3.7 Our recommendation is based on the estimates of future financial performance as projected by the Management, which represents their view of reasonable expectation at the point of time when they were prepared, but such information and estimates are not offered as assurances that the particular level of income or profit will be achieved or events will occur as predicted. Actual results achieved during the period covered by the prospective financial statements may vary from those contained in the statement and the variation may be material. The fact that we have considered the projections in this exercise of valuation should not be construed or taken as our being associated with or a party to such projections.

3.8 Our report is not, nor should it be construed as our opining or certifying the compliance of the proposed amalgamation with the provisions of any law including companies, taxation and capital market related laws or as regards any legal implications or issues arising from such proposed amalgamation.

3.9 This report is prepared only in connection with the proposed amalgamation exclusively for the use of the Companies and for submission to any regulatory/statutory authority as may be required under any law.

3.10 Any person/party intending to provide finance/invest in the shares/businesses of any of the Companies, 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.

3.11 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 amalgamation as aforesaid, can be done only with our prior permission in writing.

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3.12 SSPA, nor its partners, managers, employees or agents of any of them, makes any representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the information, based on which the valuation is carried out. All such parties expressly disclaim any and all liability for, or based on or relating to any such information contained in the valuation.

4. SOURCES OF INFORMATION

For the purpose of the valuation exercise, we have relied upon the following sources of information provided by the Management.

(a) Audited financial statements of the Companies for the Financial Year (FY) ended March 31, 2016.

(b) Projections of DMCCL and BML comprising of income statement, working capital and capital expenditure requirement, as provided by the Management of respective companies.

(c) Draft Scheme of Amalgamation.

(d) Discussions with the Management on various issues relevant for the valuation including the prospects and outlook for the industry, expected growth rate and other relevant information relating to future expected profitability of the business, etc.

(e) Other relevant details regarding the Companies such as their history, their promoters, past and present activities, other relevant information and data including information in the public domain.

(f) Such other information and explanations as we required and which have been provided by the Management of the Companies.

5. VALUATION APPROACH

For the purpose of valuation for amalgamation, generally the following approaches are adopted:

(a) the "Underlying Asset" approach;

(b) the "Income" approach; and

(c) the "Market Price" approach;

5.1 The Companies are intended to be valued on a 'going concern basis' and there are no

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5.2 Considering the above and given the nature of the business in which the Companies are engaged, we have thought fit to use "Income" approach and "Market Price" approach for the current valuation exercise.

5.3 **INCOME APPROACH**

Under the "Income" approach, the equity shares of DMCCL and BML have been valued using Comparable Companies Multiple (CCM) Method and Discounted Cash Flow (DCF) Method.

5.3.1 **COMPARABLE COMPANIES MULTIPLE (CCM) METHOD**

5.3.1.1 The CCM Method arrives at the value of the company by using multiples derived from valuations of comparable companies, as manifest through stock market valuations of listed companies. This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances. The Enterprise Value (EV) to Earnings before Interest Tax Depreciation and Amortization (EBITDA) multiples of comparable listed companies are used.

5.3.1.2 To the value so arrived, adjustments have been made for loan funds, value of investments, cash and cash equivalents, preferential allotment of equity shares, preference share liability, value of tax benefits due to losses and depreciation and value of surplus assets, after making adjustment of tax wherever applicable.

5.3.1.3 The value as arrived above is divided by the outstanding number of equity shares to arrive at the value per share.

5.3.2 **DISCOUNTED CASH FLOW (DCF) METHOD.**

5.3.2.1 Under the DCF method the projected free cash flows from business operations after considering fund requirements for projected capital expenditure and incremental working capital are discounted at the Weighted Average Cost of Capital (WACC). The sum of the discounted value of such free cash flows and discounted value perpetuity (i.e. the discounted value of a company's expected free cash flows after the explicit projected period) is the value of the business.

5.3.2.2 The free cash flows represent the cash available for distribution to both the owners and

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the creditors of the business. The free cash flows are determined by adding back to profit before tax, (i) depreciation and amortizations (non-cash charge), (ii) interest on loans, and (iii) any non-operating item. The cash flow is adjusted for outflows on account of (i) capital expenditure, (ii) incremental working capital requirements and (iii) tax.

5.3.2.3 WACC is considered as the most appropriate discount rate in the DCF Method, since it reflects both the business and the financial risk of the company. In other words, WACC is the weighted average of the company's cost of equity and debt. Considering an appropriate mix between debt and equity for the company, we have arrived at the WACC to be used for discounting the Free Cash Flows of the Companies.

5.3.2.4 Appropriate adjustments have been made for loan funds, value of investments, cash and cash equivalents, preferential allotment of equity shares, preference share liability, value of tax benefits due to losses and depreciation and value of surplus assets, after making adjustment of tax wherever applicable.

5.3.2.5 The equity value so arrived at is divided by the outstanding number of equity shares to arrive at the value per share.

5.4 **MARKET PRICE APPROACH**

5.4.1 The market price of an equity share 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 the shares.

5.4.2 As stated earlier, equity shares of DMCCL and BML are listed on BSE. Thus, under Market Price method, the weighted average price of DMCCL and BML over an appropriate period has been considered.

6. RECOMMENDATION OF FAIR SHARE EXCHANGE RATIO

6.1 The fair basis of amalgamation of the Companies would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove. Though different values have been arrived at under each of the above approaches, for the purposes of recommending a ratio of exchange it is necessary to arrive at a single value for the shares of each company. It is however important to note that in doing so, we are not attempting to arrive at the absolute values of the shares of each company.

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Our exercise is to work out relative value of shares of the Companies to facilitate the determination of a ratio of exchange. For this purpose, it is necessary to give appropriate weightage to the values arrived at under each approach.

6.2 To arrive at relative value of DMCCL and BML, we have considered it appropriate to give equal weights to the value determined as per the CCM Method, DCF Method and the Market Price Method.

6.3 The share exchange ratio has been arrived on the basis of a relative valuation of the shares of the Companies based on the methodology explained herein earlier and various qualitative factors relevant to each company and the business dynamics and growth potential of the businesses of the companies, having regard to information base, management representations and perceptions, key underlying assumptions and limitations.

6.4 In the ultimate analysis, valuation will have to involve the exercise of judicious discretion and judgment taking into account all the relevant factors. There will always be several factors, e.g. present and prospective competition, yield on comparable securities and market sentiments, etc. which are not evident from the face of the balance sheets but which will strongly influence the worth of a share. This concept is also recognized in judicial decisions. For example, Viscount Simon Bd in Gold Coast Selection Trust Ltd. vs. Humphrey reported in 30 TC 209 (House of Lords) and quoted with approval by the Supreme Court of India in the case reported in 176 ITR 417 as under:

"If the asset takes the form of fully paid shares, the valuation will take into account not only the terms of the agreement but a number of other factors, such as prospective yield, marketability, the general outlook for the type of business of the company which has allotted the shares, the result of a contemporary prospectus offering similar shares for subscription, the capital position of the company, so forth. There may also be an element of value in the fact that the holding of the shares gives control of the company. If the asset is difficult to value, but is nonetheless of a money value, the best valuation possible must be made. Valuation is an art, not an exact science. Mathematical certainty is not demanded, nor indeed is it possible."

6.5 In the light of the above and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove referred to earlier in this report,

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in our opinion, a fair ratio of exchange in the event of amalgamation of BML with DMCCL would be as under:

1 (One) equity share of DMCCL of INR 10 each fully paid up for every 2 (Two) equity shares of BML of INR 10 each fully paid up

10 (Ten) equity shares of DMCCL of INR 10 each fully paid up for every 108 (One Hundred and Eight) 8% Cumulative non-convertible preference shares of BML of INR 10 each fully paid up.

Thanking you,
Yours faithfully,

SSPA & Co

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SSPA & CO.
Chartered Accountants
Firm registration number: 128851W

Signed by Parag Ved, Partner
Membership No. 102432

Place: Mumbai