FAIRNESS OPINION

KHODAY INDIA LIMITED

17th April, 2013

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Corporate Professionals
WHERE EXCELLENCE IS LAW

Ref. No: CPC/MB/002/2013-14

Dated 17.04.2013

SEBI Reg. No: INM000011435

To,

The Board of Directors
Khoday India Limited
"Brewery House",
7th Mile, Kanakapura Road,
Bangalore-560 062

Subject: Opinion on Fairness of Valuation in the proposed Scheme of Arrangement for Reduction of Share Capital of Khoday India Limited with its Shareholders.

Dear Sir,

We refer to our discussion held with the key management personnel of M/s Khoday India Limited, (here-in-after referred as "Company") for the purpose of arriving at an opinion on the Valuation of Equity shares undertaken by M/s N.C.Rajagopal & Co., Chartered Accountants, Chennai (here-in-after referred as "Valuer") in respect of the proposed Scheme of Arrangement of M/s Khoday India Limited with its shareholders pursuant to a Scheme of Arrangement for Reduction of Share Capital to be sanctioned by the Hon'ble High Court of relevant jurisdiction u/s 391 to 393 read with Section 100 to 104 of the Companies Act, 1956.

In terms of our discussion, we are enclosing our opinion along with this letter. Please note that this is just an opinion on the captioned subject on the basis of the documents submitted to us and does not constitute our independent Valuation Analysis. All comments as contained herein must be read in conjunction with the Caveats to this opinion.

The opinion is confidential and has been prepared exclusively for the management of the Company. It should not be used, reproduced or circulated to any other person, in whole or in part, without the prior consent of Corporate Professionals Capital Private Limited, such consent will only be given after full consideration of the circumstance at the time. We are however aware that the conclusion in this report may be used for the purpose of certain statutory disclosures and we provide consent for the same. Please feel free to contact us in case you require any additional information or clarifications.

Yours Faithfully,

For Corporate Professionals Capital Private Limited

Chander Sawhney

Chander Sawhney
[Asst. Vice President]

Maneesh Srivastava

Maneesh Srivastava
[Manager]

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CONTEXT AND BACKGROUND

1. We understand that M/s Khoday India Limited is a public company having its Equity shares listed at Bombay Stock Exchange (BSE), Bangalore Stock exchange (BGSE) and Madras Stock Exchange (MSE), now pursuant to a Scheme of Arrangement the company wants to undertake the Reduction of Share Capital of M/s Khoday India Limited u/s 391 read with Section 100 to 104 of the Companies Act, 1956.

2. The Valuation of the company has been undertaken by M/s N.C.Rajagopal & Co., Chartered Accountants, Chennai, Vide their Valuation Report dated 28th March, 2013 for valuation based as at 31st December 2012.

3. In accordance with Clause 24(h) of the Listing Agreement and SEBI Circular CIR/CFD/DIL/5/2013, dated February 04, 2013 as applicable to the Listed Companies, the listed Company as well as the Unlisted Company required to obtain a "Fairness Opinion" on the Valuation of assets / Equity shares done by the Valuers for the Company and Unlisted Company from an independent Merchant Banker.

   Clause 24(h) of the Listing Agreement reads as below-

   "The company agrees that in the explanatory statement forwarded by it to the shareholders u/s 393 or accompanying a proposed resolution to be passed u/s 100 of the Companies Act, it shall disclose the pre and post-arrangement or amalgamation (expected) capital structure and shareholding pattern, and the "fairness opinion" obtained from an Independent merchant bankers on Valuation of assets / Equity shares done by the Valuers for the company and unlisted company."

4. With reference to the above, we, **Corporate Professionals Capital Private Limited, a SEBI Registered Merchant Banker,** have been appointed by M/s Khoday India Limited , to provide the "Fairness Opinion" in accordance with the SEBI Circular, stated above.

BRIEF ABOUT COMPANY

The Company was incorporated on 28th day of September 1965 as Private Limited Company under the name and style of "Khoday Distilleries Private Limited", under the Companies Act, 1956, in the State of Karnataka. Subsequently, the Company changed its status to Public Limited Company on 5th June 1986 and its equity shares were listed on Bombay, Bangalore and Madras Stock Exchanges with effect from 29th September 1986. The name of the Company was changed to "Khoday India Limited", pursuant to the fresh certificate of incorporation dated 14th February 1992 issued by the Registrar of Companies, consequent on change of name.

Khoday India Limited is engaged in the manufacture and distribution of high quality Alcoholic Beverages for the Indian market.

The Company's brands include Peterscot, Red Knight and Khodays Rum enjoying a substantial market share. The distribution of liquor is mainly done by State Beverages Corporations set-up in respective states.

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KEY FACTS & CERTAIN EXTRACT OF THE SCHEME

- Persuant to the scheme of Amalgamation of Khodayss Systems Limited with the Khoday India Ltd during the financial year 2003-04, 2,30,76,923 (Two crore thirty lakhs seventy six thousand nine hundred and twenty three) equity shares were allotted to the promoters and promoters group of the company, which are unlisted at present, further based on our discussion with the key management personnel of the company under the scheme of arrangement, we understand that the Scheme of arrangement is envisaged to provide an exit route to the shareholders of the Company other than those belonging to the promoters/promoter group.
- The Scheme is conceived with the object to result in the public shareholders getting back their investment in capital together with a premium that is higher than the intrinsic value of the shares of the Company and also the average of the weekly high and low quoted price of the Company's share on Bombay Stock Exchange during the immediately preceding 26 weeks.
- The Share Valuation Report dated 28th March 2013 by the Independent Valuer M/s N.C.Rajagopal & Co, Chartered Accountants, Chennai, as per which the value per equity share of the Company as on 31st December 2012 is Rs.31.39 (Rupees Thirty one and paisa thirty nine only).
- The average of the weekly high and low quoted price of the Company's share on BSE during the period from 22nd October 2012 to 19th April 2013 is Rs.53.27 (Rupees Fifty three and paise twenty seven only).
- The Scheme envisages paying off the shareholders other than the promoter/promoter group of the Company, the paid-up capital amount of Rs.10/- (Rupees ten only) for every 1 (One) equity share together with a premium of Rs.65/- (Rupees Sixty five only) thereof, aggregating to Rs.75/- (Rupees Seventy five only) for every 1 (One) equity share, pursuant to a reduction of the proportionate paid-up equity share capital of Rs.3,93,10,420/ (Three crores ninety three lakhs ten thousand four hundred and twenty only) under Section 100 of the Act, and automatic cancellation of the corresponding equity shares of the face value of Rs.10/- (Rupees Ten only) on the Scheme being sanctioned by the Court.
- The premium of Rs.65/- (Rupees Sixty five only) to be paid together with the return of capital of Rs.10/- (Rupees Ten only)) for every 1 (One) equity share cancelled pursuant to the Scheme, will be paid by the Company out of its accumulated, distributable reserves.

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VALUERS ANALYSIS

To determine the value of the Equity shares of the Company, the Valuer have specifically relied upon the Unaudited Balance Sheets and Income Statement for the period ending 31st December 2012 as well as the projected financial statement starting from 31st March 2013 and ending on 31st March 2017.

The valuation has been carried out by the valuer under following methods.

The value of the Company has been arrived using the five methods under the Asset, Income and Market Approaches to valuation as discussed below.

The results from these methods have been used to arrive at the value of equity of Khoday India Limited as on the date of valuation. In order to eliminate bias of usage of different methods, equal weights have been assigned by the valuer to all the five methods.

Summary of various Valuation Approaches

S.No.	Method	Weight	Value(Rs.)	Weighted Value (Rs.)
1	Net Worth	20%	917,377,395	183,475,479
2	Revaluation Method	20%	935,114,635	187,022,927
3	Discounted Cash Flow	20%	627,500,385	125,500,077
4	Revenue Method	20%	2,301,825,482	460,365,096
5	EBITDA Multiple	20%	11,176,767,333	223,535,347
6	Total (1) to (5)	100%		1,179,898,926
7	No. of Shares			37,591,237
8	Value Per Shares (6)/(8)			31.39

The value of equity of Khoday India Limited as on 31st December 2012 works out to Rs. 117,98,98,926. At this value, the value per share works out to Rs. 31.39 per share

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CONCLUSION & OPINION

- With reference to above and based on information provided by the management/ Valuer of the company forming part of the scheme of the arrangement , we have been represented by the management that the present Arrangement has been structured to provide an exit route to the shareholders of the Company other than those belonging to the promoters/promoter group by reduction of proportionate paid up equity share capital and cancellation of the corresponding equity shares of face value of Rs 10/- of the company and issue of cash warrant to the shareholders entitled thereto in lieu of such cancelled shares.
- Though the company is listed at Bombay stock exchange, however its trading volumes are extremely low, so the company has undertaken the independent valuer report dated 28th march 2013 from M/s N.C.Rajagopal & Co., Chartered Accountants, Chennai, who have applied five different valuation methodologies detailed above and assigned equal weights to all the methods to determine the fair value of equity shares of company and have derived the value of per equity share to be Rs.31.39
- The average of the weekly high and low quoted price of the Company's share on BSE during the period from 22nd October 2012 to 19th April 2013 (i.e. last 26 week) is Rs.53.27 (Rupees Fifty three and paise twenty seven only).
- The Scheme envisages paying off the shareholders other than the promoter/promoter group of the Company, the paid-up capital amount of Rs.10/- (Rupees ten only) for every 1 (One) equity share together with a premium of Rs.65/- (Rupees Sixty five only) thereof, aggregating to Rs.75/- (Rupees seventy five only) for every 1 (One) equity share, pursuant to a reduction of the proportionate paid-up equity share capital, which is higher than the value per share calculated by the valuer and the average of the weekly high and low during the last six months as per trading in the BSE terminal.

"Subject to above read with the caveats as detailed later, we as a Merchant Banker hereby certify that pursuant SEBI circular dated February 04, 2013, we have reviewed the scheme of Arrangement for reduction of capital and the Valuation Report of the Valuer dated 28th March 2013, and are of the opinion that these may be taken as fair and reasonable from the perspective of Public Shareholders of the Company."

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CAVEATS

- We wish to emphasize that, we have relied on explanations and information provided by the respective key management, and other public available information while verifying the valuation report. Although, we have reviewed such data for consistency and reasonableness, we have not independently investigated or otherwise verified the data provided.

- We have not made an appraisal or independent valuation of any of the assets or liabilities of the companies and have not conducted an audit or due diligence or reviewed/validated the financial data except what is provided to us by the Company and the Valuer.

- The scope of our work has been limited both in terms of the areas of the business and operations which we have reviewed and the extent to which we have reviewed them. There may be matters, other than those noted in this Report, which might be relevant in the context of the transaction and which a wider scope might uncover.

- We have no present or planned future interest in M/s Khoday India Limited and the fee payable for this opinion is not contingent upon the opinion reported herein.

- Our Fairness Opinion should not be construed as investment advice; specifically, we do not express any opinion on the suitability or otherwise of entering into the proposed transaction.

- The Opinion contained herein is not intended to represent at any time other than the date that is specifically stated in this Report. This opinion is issued on the understanding that the Management / Valuer of M/s Khoday India Limited has drawn our attention to all matters of which they are aware, which may have an impact on our opinion up to the date of valuation as at 28th March, 2013. We have no responsibility to update this report for events and circumstances occurring after this valuation Date.

- This Fairness opinion of ours as a Cat-1 Merchant Banker is subject to the Caveats above as well as the Caveats of the valuer mentioned in its valuation report dated 28th March 2013 for valuation based as at 31st December, 2012.

- The Fairess Opinion provided by us should not be construed as a legal opinion on the scheme of arrangement.

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