Annexure - E

Tip Sons

21 SEP 2012

TCSPL/FO/2012-13/1

Wednesday, September 12, 2012

To
The Board of Directors
Modern Insulators Limited
68/69, Godavari,
Poachkhanwala Road, Worli
Mumbai - 400 030

Dear Sir,

FAIRNESS OPINION CERTIFICATE ON VALUATION FOR THE DE-MERGER OF YARN DIVISION OF MODERN INSULATORS LTD TO MODERN POLYTEX LTD AS PER THE CLAUSE 24 (H) OF THE LISTING AGREEMENT

We, Tipsons Consultancy Services Pvt Ltd ('TCSPL'), refer to our offer letter dated August 20, 2012, Monday, which has been duly accepted by you, whereby you have appointed us as an Independent Merchant Banker for furnishing a 'Fairness Opinion' on the valuation carried out by Amfin Finser (India) LLP, vide its report dated January 29, 2011 pursuant to Clause 24 (h) of Listing Agreement.

We have examined the methodologies used and corresponding valuation of the Demerging Business and MIL based on the Valuation Report furnished by Amfin Finser (India) LLP for the purpose of proposed demerger.

We enclose herewith our Report on the Fairness of the Valuation carried out by Amfin Finser (India) LLP.

We hereby give our consent to present and disclose the Fairness Opinion in the general meetings of the shareholders of MIL pursuant to Clause 24 of Listing Agreement, to the Stock Exchanges and to the Registrar of Companies, Rajasthan.

We highly appreciate the co-operation and support received by us from your representatives during preparation of the said Report.

Thanking you,

For Tipsons Consultancy Services Pvt Ltd

Avinash Kothari
VP & Head - Merchant Banking

Tipsons Consultancy Services Pvt. Ltd.
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FAIRNESS OPINION CERTIFICATE

ON VALUATION

FOR THE DE-MERGER OF YARN DIVISION OF

MODERN INSULATORS LTD

TO

MODERN POLYTEX LTD

Tip Sons

TIPSONS CONSULTANCY SERVICES PVT. LTD.
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I. TERMS OF REFERENCE

1.1 Modern Insulators Limited (MIL) is listed on BSE and Modern Polytex Limited (MPL) is an unlisted company.

1.2 The Board of Directors of MIL are proposing to demerge, under a Scheme of Arrangement, the Yarn Division to Modern Polytex Ltd (Resulting Company or MPL) as on Appointed Date (i.e. April 1, 2011).

Amfin Finser (India) LLP has worked out fair value of equity shares of MIL versus the shareholders' value of Yarn Division of MIL as on appointed date of de-merger.

1.3 For the purpose of ascertaining the fairness of the valuation used by MIL, TCSPL has been appointed for furnishing a **Fairness Opinion** on the valuation carried by the aforesaid Valuer.

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II. INFORMATION RECEIVED AND RELIED UPON BY US FOR THE FAIRNESS OPINION

2.1 We, TCSPL, have prepared the Fairness Opinion on the basis of the following information provided to us -

(a) Audited financial statements of MIL for the period 2008-09 (18 months ended 30.09.09).

(b) Projected financial data of MIL for the years 2009-11 to 2014-15.

(c) Projected financial data of Yarn Division for the years 2009-11 to 2014-15.

(d) Valuation Report of Amfin Finser (India) LLP dated January 29, 2011.

2.2 Our work does not constitute an audit or certification of the historical financial statements of Modern Insulators Limited, including their working results referred to in this Report. Accordingly, we are unable to and do not express any opinion on the accuracy of any financial information referred to in this Report. We assume no responsibility for any errors in the information/clarifications submitted by the Managements and their impact on the present exercise. **This Fairness Opinion has been furnished on the methodologies and resultant share valuation used by the Valuer.**

2.3 This Report is issued on the understanding that Modern Insulators Limited has drawn our attention to all the relevant matters, of which they were aware of, concerning the respective company's financial position and businesses, which may have an impact on this Report.

2.4 Our report is also subject to the limitations referred to in the Valuation report.

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III. BRIEF BACKGROUND OF COMPANY UNDER REFERENCE

Modern Insulators Limited (MIL)

MIL was originally incorporated as a Public Limited Company on 1st May 1982 in accordance with the provisions of the Companies Act 1956, in collaboration with Siemens AG, Germany and in joint Venture with RIICO.

MIL is a leading manufacturer and supplier of High Voltage / Extra High Voltage Insulators that are essential components of the global electrical infrastructure. MIL's facilities for Insulator Division are situated at Abu Road, Dist Sirohi, Rajasthan. In year 2007 MIL set up a separate "yarn division" under the name of Gujarat Polyfils ("GPF") at Surat, Gujarat for the manufacture of polyester yarn with a capacity of 25000 tons per annum. The first phase of the project with capacity of 12500 tons per annum was completed in September, 2008 and the second phase of the project with capacity of 12500 tons per annum was completed in March 2010.

In 2009, M/s Modern Terry Towel Limited (MTTL) filed a rehabilitation scheme in BIFR envisaging its amalgamation with MIL w.e.f 01.01.2008. MTTL was originally incorporated in 1976 in the name on Modern Woollens Private Limited, which later on changed to Modern Woollens Limited. In 1992, the Company Setup 100% Export Oriented Terry Towel Plant in Technical Collaboration with Courtaulds of U.K. at Ahmedabad in Gujarat. It started commercial production in October, 1993. The woollen division was spun off to Modern Threads (India) Limited from April, 1994 under the scheme of arrangement approved by Rajasthan High Court.

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The name of Modern Woollens Limited was thereafter changed to Modern Terry Towels Limited (MTTL). The performance of the company was satisfactory till year 1998. Thereafter the performance was affected due to various reasons beyond control of the management, and the company suffered financial losses. The accumulated losses fully wiped out net-worth of the company as on March 31, 2001 and thereupon MTTL made a reference to BIFR to register itself as a Sick Company.

The scheme of amalgamation of MTTL with MIL is pending for sanction with BIFR.

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IV. RATIONALE FOR DEMERGER

4.1 It is felt desirable for the board of directors of MIL to de-merge Yarn Division of MIL and the stated rationales for the de merger are as follows:

(a) Segregate Insulator and Polyester Yarn businesses of MIL into 2 separate focused entities, which would benefit the shareholder and other stakeholder of MIL, as each entity would be able to independently pursue the growth opportunities in their respective areas.

(b) The present business scenario in the domestic and international markets has necessitated both Insulators as well as Polyester yarn divisions to plan capital expenditure, devise new marketing strategies which are distinct and independent for each of the businesses.

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V. COMMENTS ON THE 'BASIS OF VALUATION' AND 'VALUATION METHODOLOGY'

The valuer has worked out fair value of equity shares of MIL versus the shareholders' value of yarn Division (GPF division) of MIL as on Appointed Date of the de-merger i.e. 01.04.2011.

Normally, adopting any one or more of the following established methods arrives at share valuation of the companies. These methods are:

- Intrinsic value method-Keeping in view the various division's different profitability and debt structure, it is felt prudent to adopt the method of 'Enterprise Value for Equity Shareholders' as true and fair indicator of Intrinsic Value.

- Net Assets Value Method.

- Weighted average Method.

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VI. COMMENTS ON THE VALUATION

1. Enterprise Value for Equity Shareholders:

The Enterprise Value Based on Discounted Free Cash Flow Technique is one of the most rigorous approaches to valuation of a business or equity. In this technique the projected free cash flows from business operations are discounted at the weighted average cost of the capital and the sum of such discounted free cash flows is the value of business. The value of equity is taken as value of business less value of outside liabilities.

Using the DCF analysis involves determining the following:-

1. Estimated Future Free Cash Flows
2. The Time frame of the cash flows
3. Appropriate discount rate to be applied to cash flows
4. The continuing value, i.e. the cumulative value of the free cash flows beyond the explicit forecast period.

Free Cash Flows to Equity Shareholders:

Free cash flows to equity shareholders are the cash flows expected to be generated by the company from its business operation that are available to equity holders. The free cash flows to equity shareholder are determined by adjusting the following from Earnings before Interest, Depreciation & Tax (EBIDTA) -

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- Change in working capital requirements
- Investments in Capital expenditure and other assets
- Capital Outflows
- Interest
- Repayment Obligation
- Taxation

Free cash flows thus calculated will be equal to the sum of the operational cash flows adjusted for all the capital providers (viz. interest, new borrowings and debt repayments in the case of debt holders), requirements for working capital and the change in investment of surplus funds in marketable securities.

Projections of Future Working of MIL and GPF

The valuer has had detailed discussions with the management of the company with regard to the projections during the course of this valuation exercise. While working out the projections of future performance the due weight has been given to the present trends of the end use industry and the expected improvement in the productivity as a result of completion of ongoing capital expenditure program for up-gradation and expansion. The projected earnings would however be subject to a moderate risk due to likely competition. As estimate of future earnings is subject to various variables and leaves the matter open to the subjective judgment of the parties concerned, it is in this light that the projections of the companies and divisions have to be considered.

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Time Frame of cash Flows:

A problem faced in valuing a business is its indefinite life especially where the valuation, as in the present case, is on a going concern basis. This problem could be tackled by separating the value of the business into two-time periods viz. explicit forecast period and post explicit forecast period. In such a case, the value of business will be value of free cash flows generated during the explicit forecast period. While projected free cash flows of the explicit forecast period can be prepared meticulously based on the business plan, the free cash flows of the post explicit forecast period could be estimated using as appropriate method. In the present case the explicit forecast period is a period of six years from the year 2010-11 to year 2015-16.

Appropriate Discounting Rate:

Under the DCF method the time value of money is recognized by applying a discounted rate to the future free cash flows to arrive at their present value. This discounted rate which is applied to the free cash flows should reflect the opportunity cost to the shareholders. The opportunity cost to the equity capital providers equal the rate of return the capital provider expects to earn on other investment of equivalent risk. The cost of equity is considered at 15% per annum.

Continuing Value:

In continuing value of an on-going business could best to be determined as the present value of the estimated future free cash flows in order to obviate the need to forecast the Company's cash flows in detail for an indefinite period. On this basis, the calculation

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of the continuing value may be made by capitalizing the free cash flows of the final year in the explicit forecast period into perpetuity using an appropriate rate of return (normally the cost of capital factoring for an element of growth in future years).

The provision for tax liability in the projections for the estimate tax liability in future has been considered.

The Enterprise Value of business for Equity Shareholders has been computed by applying the discounted cash flow method, which works out to Rs.18478 Lakh for MIL and Rs.8670 lakh for Yarn division of MIL.

2. Net Asset Value Method

Based on the Book Value of the Assets and Liabilities

Valuation of the De-merging Business under this method is arrived at on the basis of book value of all tangible assets of the de-merging business enterprise as shown in the balance sheet of the Company as on 31/03/2011. The valuation under this method is done based on the Balance Sheet prepared on historical costs basis.

The computation of the tangible assets and liabilities of the MIL Business in terms of the estimated position of book of accounts of the company as at 31st March 2011 is given below:

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Liabilities	Rs. in Crores	Assets	Rs. in Crores
Net worth	164.45	Net Fixed Assets	187.30
Secured Loans	124.27	Investments	1.17
Fixed deposits	5.03	Loan to Subsidiaries & deposits	49.10
Unsecured Loans	33.09	Inventories, receivables and other current assets	148.15
Current Liabilities	61.50	Cash & Bank Bal	2.62
Total	**388.34**	**Total**	**388.34**

It would be observed from the above, that the Net Asset value, i.e. the aggregate book value of the equity shares of MIL as on 31.03.11 is estimated at Rs.164.45 crores.

The computation of the tangible assets and liabilities of the GPF i.e. yarn business in terms of the estimated position of book of account of the division as at 31st March 2011 is given below:

Liabilities	Rs. In Crores	Assets	Rs. In Crores
Inter Company Balances	85.00	Net Fixed Assets	85.57
Reserves	9.94	Inventory, receivables and other current assets	12.69

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Unsecured Loans and Other Current Liabilities	5.52	Cash & Bank Bal	2.20
Total	**100.46**	**Total**	**100.46**

It would be observed from the above, that the Net Assets Value or aggregate value of GPF division for shareholders as on 31.03.11 is estimated at **Rs.94.94 crores.**

In case of a going concern, with potential to earn profits in the future, the relevance of value under this method may be limited for the reason explained later in the report. However value determined under this method does serve as a useful benchmark, which should be kept in the background. Subject to the realized value of the assets and / or business under this would be the minimum value that a willing seller would expect to realize from the sale of the business. Accordingly, the value under this method has been kept in the background in this valuation exercise.

The value of a business based on the historical cost of its tangible assets may or may not always reflect its real worth on the valuation date. This is for the reason that the value of assets acquired in the past would not be static but would either appreciate or depreciate in value depending upon the nature of the asset, its economical life, the demand in the market and several other factors. Therefore, the intrinsic worth or realizable value of the assets on the valuation date needs to the determined.

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The relevance of the value under this method needs to be checked vis-à-vis the fundamental intention and purpose of setting up a production / business facility which is to create value addition and earn future income out of such an investment. In case of a going concern what is be sold/transferred is the business undertaking as a whole. This results in a transfer of right / entitlement to future earning potential of the business unit. For this reason, the business based on net assets value methods needs to be compared with the value of business based on future earning potential which takes into account the intangible value embedded in the undertaking as a going concern represented by the established infrastructure facilities, marking network, skilled manpower etc.

3. <u>Weighted Average Method:</u>

To determine the fair value of company one cannot rely on a single method. Each method has its own merits and demerits. Net assets method is to be considered the most conservative method, while there is uncertainty factor in case of earnings capitalization method. The most recommended and correct method is market value (if quoted), but in this case the equity shares of the companies are not traded on stock exchange /(s). Hence, to calculate the fair value of the shares, certain weight-ages needs to be assigned. As the Enterprise Value of Shareholder method is much more scientific, higher weight of 90% is attached to the value arrived under this method.

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Modern Insulators Limited:-

Particulars	Rs. Cr	Weightage	W. Average Value per share
Valve as per Enterprise Value for Equity Shareholder Method(EBV)	185	90%	166
Value as per Net Asset value Method	164	10%	16
Value as per Weighted Average Method (Rs. Crores)			183

GPF (Yarn Division)

Particulars	Rs. Cr	Weightage	W. Average Value per share
Valve as per Enterprise Value for Equity Shareholder Method(EBV)	87	90%	78
Value as per Net Asset value Method	95	10%	9
Value as per Weighted Average Method (Rs. Crores)			88

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OPINION ON VALUATION REPORT:

The valuation of the demerging business and valuation of MIL has been arrived on the basis of the various methodologies explained herein earlier and various qualitative factors relevant to the demerging business and the business dynamics and growth potentials, having regard to information base, management representations and perceptions, key underlying assumptions and limitations.

Based on the information, material, data made available to us, including the Valuation Report and working thereto, to best of our knowledge and belief, the methodologies used and corresponding valuation of the demerging business and valuation of MIL suggested by Amfin Finser (India) LLP proposed under the scheme of arrangement is Fair.

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