

3 December 2013

To,

**Mahindra Forgings Limited**  
Mahindra Towers,  
P K Kurne Chowk,  
Worli, Mumbai – 400018

**Mahindra Composites Ltd**  
145, Nehru Nagar Road,  
Mumbai-Pune Road  
Pimpri, Pune – 411018.

Sub: Supplement to our report dated 15 June 2013 on “Recommendation of fair exchange ratio for the proposed merger of Mahindra Composites Limited and Mahindra Forgings Limited.

Dear Sirs,

This is with reference to the above given report. As desired by you, we have given workings of our valuation analysis herein.

As explained in our report, the fair exchange ratio of equity shares for the purpose of the intended merger of Mahindra Composites Ltd ('MCL') into Mahindra Forgings Ltd. (hereinafter referred to as "MFL") with effect from 01 October 2013 ('Appointed date'). The exchange ratio has been arrived at on the basis of a relative valuation of these companies based on the various methodologies as indicated in our report and various qualitative factors relevant to each company and the business dynamics and growth potentials of the businesses of the companies, having regard to information base, management representations and perceptions, key underlying assumptions and limitations as referred to in the report. Please note that we have not attempted to arrive at the absolute values but at their comparative values to facilitate the determination of a fair exchange ratio.

MFL has been valued based on Market Price (MP) method, Price of Recent Transaction (PORT) method, Discounted Cash Flow (DCF) method and Net Asset Value (NAV) method.

MCL has been valued based on MP method, Price of Recent Transaction (PORT), DCF method and NAV method.

We have considered it appropriate to assign 45% to MP method, 45% weight to PORT method & DCF method and 10% weight to NAV method.



On the above basis, relative value of equity shares for swap is as follows:

- 1) MFL - ₹ 52.5 per equity share of Rs. 10/- each fully paid up
- 2) MCL - ₹ 47.5 per equity share of Rs. 10/- each fully paid up

In light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined in the report dated 15 June 2013, the proposed fair exchange ratio of equity shares for the merger of MCL into MFL is a ratio of:

- 90 (Ninety) equity shares of MFL of ₹ 10/- each fully paid up for every 100 (One hundred) equity shares of MCL of ₹ 10/- each fully paid up.

The above including the attached valuation workings should be read in conjunction with our report dated 15 June 2013 and is subject to the scope limitations enunciated in the report.

As two Valuers were involved in this exercise, both independently arrived at different per share values of the Companies. To arrive at the consensus on the exchange ratios for the proposed merger, appropriate averaging and rounding off in the values arrived at by the two valuers have been done.

Although this letter is being issued today, it contains workings as of the date of our valuation report.

Thanking You,

**For S. R. Batliboi & Co. LLP**

ICAI Firm registration number: 301003E

Chartered Accountants

per Ravi Bansal

Partner

Membership No.:49365



Place: Mumbai

Date: 3 December 2013

**Working Note 1- Valuation of MFL**

Currency: ₹ mn	Notes	Weights (%)	Value per share	Value
<b>Equity value</b>				
Market price method	1.1	45.0	40.5	3,732.0
Price of Recent Transaction method	1.2	22.5	81.0	7,466.0
Discounted cash flows method	1.3	22.5	67.1	6,183.2
Assets value method	1.4	10.0	8.6	791.0
<b>Equity value as at 31 March 2013</b>		<b>100.0</b>	<b>52.4</b>	<b>4,829.6</b>
Number of equity shares (in millions)				92.2
<b>Value per equity share (₹ / share) prior to adjustment of ESOPs</b>				<b>52.4</b>
<b>Value per equity share (₹ / share) - after adjustment of ESOPs and rounding off</b>				<b>52.5</b>

**Working Note 1.1 – Valuation of MFL as per Market Price method**

Currency: ₹	Volume (daily average of NSE only)	Price
Average of daily weighted average price for 60 trading days ended 7 June 2013	1,36,539	40.5
Number of equity shares (in million)		92.2
<b>Equity value (₹ mn) as at 31 March 2013</b>		<b>3,732.0</b>

Source: Capitaline using National Stock Exchange (NSE) data (since trading volume higher in NSE than Bombay Stock Exchange (BSE))

**Working Note 1.2 – Valuation of MFL as per PORT method**

Currency: ₹ mn	Value
Number of equity shares outstanding as at 31 March 2013 (in million)	92.2
Price per share (₹)	81.0
<b>Equity value as at 31 March 2013</b>	<b>7,466.0</b>

Based on price paid by CIE Automotive S.A. to Mahindra and Mahindra Limited for acquisition of 48,529,500 number of shares.



**Working Note 1.3 – Valuation of MFL as per DCF method**

Currency: ₹ mn	MFL India Business	MFL Europe Business
Present value of cash flows (explicit period and terminal period)	5,443.1	7,125.5
Other adjustments*	(57.8)	641.5
<b>Enterprise value</b>	<b>5,385.3</b>	<b>7,767.0</b>
Net debt**	74.5	(7,043.6)
<b>Equity Value</b>	<b>5,459.8</b>	<b>723.5</b>
<b>Total equity value of MFL</b>	<b>6,183.2</b>	

\*Include present value of tax benefit, loans to affiliates considered as surplus asset, other surplus assets/ liabilities and contingent liabilities

\*\*Include gross debt, cash and cash equivalents and investments

**Working Note 1.4 – Valuation analysis of MFL as per NAV method**

Currency: ₹ mn	Mar13
Share capital - paid up value	921.7
Reserves and surplus	6,622.4
Other adjustments*	(6,753.1)
<b>Net worth as at 31 March 2013</b>	<b>791.0</b>

Include goodwill, adjustment in debt and contingent liabilities





## Working Note 2- Valuation of MCL

Currency: ₹ mn	Notes	Weights (%)	Value per share	Value
<b>Equity value</b>				
Market price method	2.1	45.0	30.1	132.9
Price of Recent Investment/ Transaction method (CIE)	2.2	22.5	74.7	329.7
Discounted cash flows method	2.3	22.5	59.4	262.2
Assets value method	2.4	10.0	33.2	146.3
<b>Equity value as at 31 March 2013</b>		<b>100.0</b>	<b>47.0</b>	<b>207.6</b>
Number of equity shares (in millions)				4.4
<b>Value per equity share (₹ / share) prior to adjustment of ESOPs</b>				<b>47.0</b>
<b>Value per equity share (₹ / share) - after adjustment of ESOPs and rounding off</b>				<b>47.5</b>

## Working Note 2.1 – Valuation analysis of MCL as per Market Price method

Currency: ₹	Volume (daily average of BSE only)	Price
Average of daily weighted average price for 60 trading days ending 7 June 2013	1,672	30.1
Number of equity shares (in million)		4.4
<b>Equity value (₹ mn) as at 31 March 2013</b>		<b>132.9</b>

Source: Capitaline using BSE data (since MCL is not listed on NSE)

## Working Note 2.2 – Valuation of MCL as per PORT method

Currency: ₹ mn	Value
Number of equity shares outstanding as at 31 March 2013 (in million)	4.4
Price per share (₹)	74.7
<b>Equity value as at 31 March 2013</b>	<b>329.7</b>

Based on price paid by CIE Automotive S.A. to Mahindra and Mahindra Limited for acquisition of 1,341,203 number of shares.



**Working Note 2.3 – Valuation of MCL as per DCF method**

Currency: ₹ mn	Amount
Present value of cash flows (explicit period and terminal period)	323.4
Other adjustments*	12.3
<b>Enterprise value as at 31 March 2013</b>	<b>335.6</b>
Net debt**	(73.5)
<b>Equity value as at 31 March 2013</b>	<b>262.2</b>

\*Include loans to affiliates considered as surplus asset and other surplus assets/ liabilities

\*\*Include gross debt, cash and cash equivalents and investments

**Working Note 2.4 – Valuation of MCL as per NAV method**

Currency: ₹ mn	Notes	Mar13
Share capital - paid up value		44.1
Reserves and surplus		102.2
<b>Net worth as at 31 March 2013</b>		<b>146.3</b>

