

**S.R. BATLIBOI & Co. LLP**

Chartered Accountants

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**The Board of Directors**  
**Mahindra Forgings Limited**  
Mahindra Towers,  
P K Kurne Chowk,  
Worli, Mumbai - 400018.

**The Board of Directors**  
**Mahindra Composites Ltd**  
145, Nehru Nagar Road,  
Mumbai-Pune Road  
Pimpri, Pune - 411018.

**Sub: Recommendation of fair exchange ratio for the proposed merger of Mahindra Composites Limited and Mahindra Forgings Limited**

Dear Sirs,

We refer to our engagement letter dated 30 May 2013 wherein Mahindra Forgings Ltd ('MFL') and Mahindra Composites Ltd ('MCL') have requested wherein S. R. Batliboi & Co. LLP (hereinafter referred to as "SRBC" or "we" or "us") to recommend an exchange ratio for the proposed merger of MCL into MFL (together hereinafter referred to as 'you' or 'Companies').

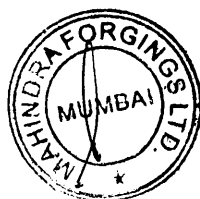
We understand that N. M. Raiji & Co. (NMR) have also been appointed to independently recommend fair exchange ratio for the proposed merger.

SRBC and NMR are collectively referred to as the 'Valuers' in this report.

**SCOPE AND PURPOSE OF THIS REPORT**

MFL is engaged in the manufacture of forged and machined products for automotive, agriculture, railway, mining, and construction industries. MFL has manufacturing operations in India, Germany and UK. The equity shares of MFL are listed on Bombay Stock Exchange Limited ('BSE') and National Stock Exchange of India Limited ('NSE'). MFL has its registered office at Mahindra Towers, P K Kurne Chowk, Worli, Mumbai - 400018, India.

MCL is part of Mahindra & Mahindra Group (M&M Group) and is involved in the field of composites supplying compounds and components for automotive manufacturers. The equity shares of MCL are listed on BSE. MCL has its registered office at 145, Nehru Nagar Road, Mumbai-Pune Road, Pimpri, Pune - 411018, India.



We understand that the Management of Companies are contemplating merger of MCL into MFL under a scheme of Amalgamation under the provisions of Section 391-394 of the Companies Act, 1956 ("Scheme of Amalgamation"). As a part of this transaction, equity shareholders of MCL would be issued equity shares of MFL as a part of the Scheme of Amalgamation.

We understand that the appointed date for the merger will be 1 October 2013.

For the aforesaid purpose, the Management of Companies have appointed us to recommend a fair exchange ratio for distribution of MFL shares to the shareholders of MCL.

The scope of our services is to conduct relative valuation for recommending a fair exchange ratio for the proposed Merger in accordance with generally accepted professional standards.

We have been informed that parties have agreed to certain transactions taking place before the appointed date of the proposed merger by which CIE Automotive SA (CIE) is to acquire certain specified number of shares of MFL and MCL held by Mahindra & Mahindra Limited (M&M) for cash consideration.

The aforesaid transactions have been referred to as Conditions Precedent for the purpose of our report (Conditions Precedent). Our recommendation is dependent upon completion of the Conditions Precedent as represented to us. Any change in this assumption would impact the swap ratio recommended by us.

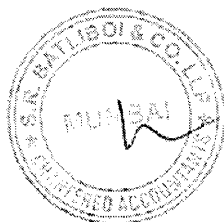
We have considered the aforesaid while carrying out the relative valuation of the equity shares of the Companies. We have considered financial information upto 31 March 2013 in our analysis and made adjustments for facts made known (past or future) to us till the date of our report. The Management of Companies have informed us that they do not expect any events which are unusual or not in normal course of business upto the effective date of the merger, other than the events specifically mentioned in this report. The management of Companies has further informed us that:

- (a) there would not be any other capital variation in the Companies except as mentioned elsewhere in the report till the date the proposed merger becomes effective other than on account of exercise of options under the existing Employee Stock Option Plan (ESOP).
- (b) neither Companies would declare any dividend till the date on which the shares of MFL are issued under the Scheme of Amalgamation.

We have relied on the above while arriving at the fair exchange ratio for the proposed Merger.

This is our report for the above engagement.

This report is subject to the scope, assumptions, exclusions, limitations and disclaimers detailed hereinafter. As such, the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.



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#### **SOURCES OF INFORMATION**

In connection with this exercise, we have received the following information from the respective Managements:

- Audited Financial Statements of MFL for the year ended 31 March 2013.
- Audited Financial Statements of MCL for the year ended 31 March 2013.
- Details of CIE's purchase of certain stakes in MFL and MCL from M&M as referred to in Conditions Precedent.
- Financial projections of the Companies from 1 April 2013 to 31 March 2017.
- Details of surplus/non-operating assets for each of the Companies.
- Details of ESOP Schemes in MFL and MCL.
- Discussions with the Management of the respective Companies in connection with the operations of the respective Companies, past trends and future plans and prospects, etc.;
- Other information and documents for the purpose of this engagement.

We have also obtained explanations and information considered reasonably necessary for our exercise, from the executives and representatives of the Companies. The Companies have been provided with the opportunity to review the draft report (excluding the recommended exchange ratio) for this engagement to make sure that factual inaccuracies are avoided in our final report.

#### **SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS**

Provision of valuation opinions and consideration of the issues described herein are areas of our regular practice. The services do not represent accounting, assurance, accounting / tax due diligence, consulting or tax related services that may otherwise be provided by us or our affiliates.

This report, its contents and the results herein (i) are specific to the purpose of valuation agreed as per the terms of our engagements; (ii) are specific to the date of this report, (iii) are based on the balance sheets as at 31 March 2013 of the Companies and (iv) are subject to completion of the Conditions Precedent in the manner represented to us. A valuation of this nature is necessarily based on the prevailing stock market, financial, economic and other Condition in general and industry trends in particular as in effect on, and the information made available to us as of 9 June 2013. Events occurring after this date may affect this report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this report.

The recommendation(s) rendered in this report only represent our recommendation(s) based upon information available up to 9 June 2013, furnished by the Companies (or its representatives) and other sources and the said recommendation(s) shall be considered to be in the nature of non-binding advice, (our recommendation will however not be used for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors). We have no obligation to update this report.



In the course of the valuation, we were provided with both written and verbal information, including market, technical, financial and operating data.

In accordance with the terms of our respective engagements, we have assumed and relied upon, without independently verifying, (i) the accuracy of the information that was publicly available and formed a substantial basis for this report and (ii) the accuracy of information made available to us by the Companies. In accordance with our Engagement Letter and in accordance with the customary approach adopted in valuation exercises, we have not audited, reviewed or otherwise investigated the historical financial information provided to us. Accordingly, we do not express an opinion or offer any form of assurance regarding the truth and fairness of the financial position as indicated in the financial statements. Also, with respect to explanations and information sought from the Companies, we have been given to understand by the Companies that they have not omitted any relevant and material factors and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt. Our conclusions are based on the assumptions and information given by/on behalf of the Companies. The respective Managements of the Companies have indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis/results. Accordingly, we assume no responsibility for any errors in the information furnished by the Companies and their impact on the report. Also, we assume no responsibility for technical information (if any) furnished by the Companies. However nothing has come to our attention to indicate that the information provided was materially mis-stated/ incorrect or would not afford reasonable grounds upon which to base the report. We do not imply and it should not be construed that we have verified any of the information provided to us, or that our inquiries could have verified any matter, which a more extensive examination might disclose.

The report assumes that the Companies complies fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the Companies will be managed in a competent and responsible manner. Further, except as specifically stated to the contrary, this valuation report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigation and other contingent liabilities that are not recorded in the audited/unaudited balance sheet of the Companies.

This report does not look into the business/ commercial reasons behind the proposed Merger nor the likely benefits arising out of the same. Similarly, it does not address the relative merits of the proposed Merger as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.

No investigation of the Companies' claim to title of assets has been made for the purpose of this report and the Companies' 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. The book values of the assets and liabilities of the Companies have been considered as representative of their intrinsic value in the absence of any report of external valuers.



We must emphasize that realisations of free cash flow forecast used in the analysis will be dependent on the continuing validity of assumptions on which they are based. Our analysis, therefore, will not, and cannot be directed to providing any assurance about the achievability of the final projections. Since the financial forecasts relate to future, actual results are likely to be different from the projected results because events and circumstances do not occur as expected, and the differences may be material.

The fees for the Engagement is not contingent upon the results reported.

We owe responsibility to only the Boards of Directors of the Companies under the terms of our engagement, and nobody else. We do not accept any liability to any third party in relation to the issue of this report. It is understood that this analysis does not represent a fairness opinion.

This valuation report is subject to the laws of India.

Neither the valuation report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties, other than in connection with the proposed Scheme of Amalgamation, without our prior written consent. In addition, this report does not in any manner address the prices at which MFL's equity shares will trade following consummation of the merger and we express no opinion or recommendation as to how the shareholders of Companies should vote at any shareholders' meeting(s) to be held in connection with the proposed merger.

#### **SHARE CAPITAL DETAILS OF THE COMPANIES**

##### **Mahindra Forgings Limited**

The current issued and subscribed equity share capital of MFL is ₹921.7 million consisting of 92,173,306 equity shares of face value of ₹ 10 each.

##### **Mahindra Composites Limited**

The current issued and subscribed equity share capital of MCL is ₹ 44.1 million consisting of 4,413,924 equity shares of face value of ₹ 10 each.

#### **APPROACH - BASIS OF AMALGAMATION**

The proposed merger scheme contemplates the merger of the Companies pursuant to the Scheme of Amalgamation under sections 391 to 394 of the Companies Act, 1956 ("Arriving at the fair exchange ratio for the proposed merger of MCL into MFL would require determining the relative values of each company. These values are to be determined independently but on a relative basis, and without considering the effect of the proposed Merger.



There are several commonly used and accepted methods for determining the fair exchange ratio for the proposed merger of MCL into MFL, which have been considered in the present case, to the extent relevant and applicable, including:

1. Comparable Companies' Multiples method / Guideline Company method
2. Market Price method
3. Discounted Cash Flows method
4. Net Asset Value method
5. Price of Recent Transaction/Investment

It should be understood that the valuation of any company or its assets is inherently imprecise and is subject to certain uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In performing our analysis, we made numerous assumptions with respect to industry performance and general business and economic condition, many of which are beyond the control of the Companies. In addition, this valuation will fluctuate with changes in prevailing market Condition, the Condition and prospects, financial and otherwise, of the Companies, and other factors which generally influence the valuation of companies and their assets.

The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values may exist for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. Our choice of methodology of valuation has been arrived at using usual and conventional methodologies adopted for transactions of a similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignments of a similar nature.

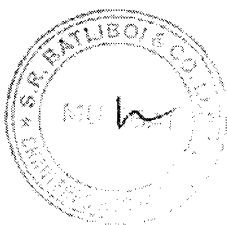
#### **Comparable Companies' Multiple (CCM) / Guideline Company method**

Under this method, value of the equity shares of a company is arrived at by using multiples derived from valuations of comparable companies or comparable transactions, as manifest through stock market valuations of listed companies and the transaction valuation. 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.

We have not considered this method since equity shares of the Companies are listed on recognized stock exchange in India.

#### **Market Price Method**

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. But there could be situations where the value of the share as quoted on the stock market would not be regarded as a proper index of the fair value of the share especially where the market values are fluctuating in a volatile capital market. Further, in the case



of a merger, where there is a question of evaluating the shares of one company against those of another, the volume of transactions and the number of shares available for trading on the stock exchange over a reasonable period would have to be of a comparable standard.

In the present case, the shares of MFL and MCL are listed on BSE and/or NSE and there are regular transactions in their equity shares. In these cases, the volume weighted average share price of the respective Companies over a reasonable period have been considered for determining the value of the Companies under the market price methodology.

#### **Discounted Cash Flows (DCF) Method**

Under the DCF method the projected free cash flows to the firm are discounted at the weighted average cost of capital. The sum of the discounted value of such free cash flows is the value of the firm.

Using the DCF analysis involves determining the following:

*Estimating future free cash flows:*

Free cash flows are the cash flows expected to be generated by the company that are available to all providers of the company's capital – both debt and equity.

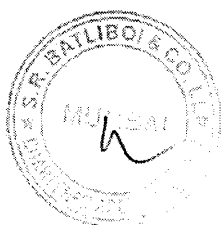
*Appropriate discount rate to be applied to cash flows i.e. the cost of capital:*

This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and creditors), weighted by their relative contribution to the total capital of the company. The opportunity cost to the capital provider equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

To arrive at the total value available to the equity shareholders of each of the Companies, value arrived above under DCF method for the Companies/ operating subsidiaries is adjusted for the value of loans, cash, non-operating assets/liabilities (e.g. value of non-operating investments/surplus assets including those arising out of with binding sale/indemnification agreements, impact of contingent liability, etc.) as deemed appropriate. The total value for equity shareholders is then divided by the estimated total number of equity shares of the respective companies as on the appointed date of the proposed merger in order to work out the value per equity share of the Companies.

#### **Net Asset Value (NAV) Methodology**

The asset based valuation technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. This valuation approach is mainly used in case where the firm is to be liquidated i.e. it does not meet the "going concern" criteria or in case where the assets base dominate earnings capability. A Scheme of Amalgamation would normally be proceeded with, on the assumption that the companies amalgamate as going concerns and an actual realization of the operating assets is not



contemplated. The operating assets have therefore been considered at their book values. In such a going concern scenario, the relative earning power is of importance to the basis of amalgamation, with the values arrived at on the net asset basis being of limited relevance.

We have computed the Net Asset Value of equity shares of the Companies. We have considered the balance sheets as of 31 March 2013 and made suitable adjustments for contingent liabilities, goodwill on acquisition/consolidation, etc.

#### **Price of Recent Transaction (PORT) method**

The price of an equity share as transacted between unrelated but willing buyers/sellers having adequate/full information is normally considered as good representative of the value of the equity shares of that company. There could be situations where PORT may not be representative of fair value, e.g. in case of rights issue or cases where transaction is only an internal restructuring within the Group.

In the present case, recent transactions (referred to as the Conditions Precedent) in shares/business of MFL and MCL have been considered by us under the PORT method.

#### **BASIS OF AMALGAMATION**

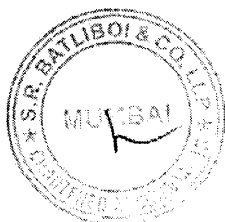
The basis of merger of MCL into MFL would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove. Though different values have been arrived at under each of the above methodologies, for the purposes of recommending a fair exchange ratio of equity shares it is necessary to arrive at a single value for the shares of MCL and MFL. It is however important to note that in doing so, we are not attempting to arrive at the absolute equity values of MCL and MFL but at their relative values to facilitate the determination of a fair exchange ratio. For this purpose, it is necessary to give appropriate weights to the values arrived at under each methodology.

The Companies were valued using various methods. However comparatively lower weightage has been given to value as per NAV Method.

The per share value for each company has been adjusted for ESOP dilution as considered appropriate.

In the ultimate analysis, valuation will have to be arrived at by the exercise of judicious discretion by the valuer and judgment taking into account all the relevant factors. There will always be several factors, e.g. quality and integrity of the management, present and prospective competition, yield on comparable securities and market sentiment, 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 recognised in judicial decisions.

The fair exchange ratio of equity shares of MCL and MFL have been arrived at on the basis of a relative equity valuation for each of the Companies based on the various methodologies explained herein earlier and various qualitative factors relevant to each company and the business dynamics





# **S.R. BATLIBOI & Co. LLP**

Chartered Accountants

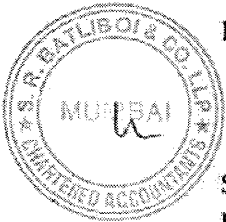
and growth potentials of the businesses of the Companies, having regard to information base, key underlying assumptions and limitations.

Valuers (i.e. we and NMR) have independently arrived at different values per share of the Companies. To arrive at the consensus on the exchange ratio for the proposed merger, appropriate averaging and rounding off in the values arrived at by the Valuers have been done.

In light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined herein above and subject to fulfillment of the Conditions Precedent, we recommend following fair exchange ratio of equity shares for the merger:

- 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.

Respectfully submitted.



*S. R. Batliboi & Co. LLP*  
S. R. Batliboi & Co. LLP  
ICAI Firm registration number: 301003E  
Chartered Accountants

Place: Mumbai

Date: 15 June 2013



**N. M. RAIJI & CO.**

*Chartered Accountants*

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**Sub: Recommendation of fair exchange ratio for the proposed merger of  
Mahindra Composites Limited and Mahindra Forgings Limited**

Dear Sirs,

We refer to the engagement letter dated 30 May 2013 wherein Mahindra Forgings Ltd ('MFL') and Mahindra Composites Ltd ('MCL') have appointed us to recommend an exchange ratio for the proposed merger of MCL into MFL [together hereinafter referred to as 'you' or 'Companies'].

S. R. Batliboi & Co. LLP, Chartered Accountants ('SRBC') have also been appointed as a joint valuer for this assignment who will be simultaneously issuing their report. We and SRBC are collectively referred to as the 'Valuers' in this report.

**SCOPE AND PURPOSE OF THIS REPORT**

MFL is engaged in the manufacture of forged and machined products for automotive, agriculture, railway, mining, and construction industries. MFL has manufacturing operations in India, Germany and UK. The equity shares of MFL are listed on Bombay Stock Exchange Limited ('BSE') and National Stock Exchange of India Limited ('NSE'). MFL has its registered office at Mahindra Towers, P K Kurne Chowk, Worli, Mumbai - 400018, India.

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*Handwritten signature*



We understand that the Management of Companies are contemplating merger of MCL into MFL under a Scheme of Amalgamation ('the Scheme') under the provisions of Section 391-394 of the Companies Act, 1956. As a part of this transaction, equity shareholders of MCL would be issued equity shares of MFL as a part of the Scheme.

We understand that the appointed date for the merger will be 1 October 2013.

For the aforesaid purpose, the Management of Companies have appointed SRBC and NMR to recommend a fair exchange ratio for distribution of MFL shares to the shareholders of MCL.

The scope of our services is to conduct relative valuation for recommending a fair exchange ratio for the proposed Merger in accordance with generally accepted professional standards.

We have been informed that parties have agreed to certain transactions taking place before the appointed date of the proposed merger by which CIE Automotive, SA ('CIE') will acquire certain specified number of shares of MFL and MCL held by M&M for cash consideration.

The aforesaid transactions have been referred to as Conditions Precedent for the purpose of our report ('Conditions Precedent'). Our recommendation is dependent upon completion of the Conditions Precedent as represented to us. Any change in this assumption would impact the swap ratio recommended by us.

We have considered the aforesaid while carrying out the relative valuation of the equity shares of the Companies. We have considered financial information upto 31 March 2013 in our analysis and made adjustments for facts made known (past or future) to us till the date of our report. The Management of Companies have informed us that they do not expect any events which are unusual or not in normal course of business upto the effective date of the merger, other than the events specifically mentioned in this report. The management of Companies has further informed us that:

- (a) there would not be any other capital variation in the Companies except as mentioned elsewhere in the report till the date the proposed merger becomes effective other than on account of exercise of options under the existing Employee Stock Option Plan (ESOP).
- (b) neither Companies would declare any dividend till the date on which the shares of MFL are issued under the Scheme of Amalgamation.

We have relied on the above while arriving at the fair exchange ratio for the proposed Merger.

This report is subject to the scope, assumptions, exclusions, limitations and disclaimers detailed hereinafter. As such, the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

## SOURCES OF INFORMATION

In connection with this exercise, we have received the following information from the respective Managements:

- Audited Financial Statements of the Companies for the year ended 31 March 2013.
- Details of CIE's purchase of certain stakes in MFL and MCL from M&M as referred to in Conditions Precedent.
- Financial projections of the Companies from 1 April 2013 to 31 March 2017.
- Details of surplus/non-operating assets for each of the Companies



- Details of ESOP Schemes in MFL and MCL.
- Discussions with the Management of the respective Companies in connection with the operations of the respective Companies, past trends and non-recurring/abnormal items, future plans and prospects, etc.;
- Other information and documents for the purpose of this engagement.

We have also obtained explanations and information considered reasonably necessary for our exercise, from the executives and representatives of the Companies. The Companies have been provided with the opportunity to review the draft report (excluding the recommended exchange ratio) for this engagement to make sure that factual inaccuracies are avoided in our final report.

#### SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS

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**N. M. RAIJI & CO.**

no responsibility for technical information (if any) furnished by the Companies. However nothing has come to our attention to indicate that the information provided was materially mis-stated/ incorrect or would not afford reasonable grounds upon which to base the report. We do not imply and it should not be construed that we have verified any of the information provided to us, or that our inquiries could have verified any matter, which a more extensive examination might disclose.

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*N.R.*



## SHARE CAPITAL DETAILS OF THE COMPANIES

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The current issued and subscribed equity share capital of MFL is Rs. 921.7 million consisting of 92,173,306 equity shares of face value of Rs. 10 each.

### Mahindra Composites Limited

The current issued and subscribed equity share capital of MCL is Rs. 44.1 million consisting of 4,413,924 equity shares of face value of Rs. 10 each.

## APPROACH - BASIS OF AMALGAMATION

The proposed merger scheme contemplates the merger of the Companies pursuant to the Scheme of Amalgamation under sections 391 to 394 of the Companies Act, 1956 ("Scheme of Amalgamation"). Arriving at the fair exchange ratio for the proposed merger of MCL into MFL would require determining the relative values of each company. These values are to be determined independently but on a relative basis, and without considering the effect of the proposed Merger.

There are several commonly used and accepted methods for determining the fair exchange ratio for the proposed merger of MCL into MFL, which have been considered in the present case, to the extent relevant and applicable, including:

1. Comparable Companies' Multiples method
2. Market Price method
3. Discounted Cash Flows method
4. Net Asset Value method
5. Price of Recent Transaction method

It should be understood that the valuation of any company or its assets is inherently imprecise and is subject to certain uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In performing our analysis, we made numerous assumptions with respect to industry performance and general business and economic conditions, many of which are beyond the control of the Companies. In addition, this valuation will fluctuate with changes in prevailing market conditions, the condition and prospects, financial and otherwise, of the Companies, and other factors which generally influence the valuation of companies and their assets.

The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values may exist for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. Our choice of methodology of valuation has been arrived at using usual and conventional methodologies adopted for transactions of a similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignments of a similar nature.

### Comparable Companies' Multiple (CCM)

Under this method, value of the equity shares of a company is arrived at by using multiples derived from valuations of comparable companies or comparable transactions, as manifest through stock market valuations of listed companies and the transaction valuation. 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.



We have considered the Profitability/Income based valuation multiple of comparable listed companies for the purpose of our valuation analysis.

To arrive at the total value available to the equity shareholders of each of the Companies, value arrived above under CCM method for the Companies is adjusted for the value of loans, cash, non-operating assets/liabilities (e.g value of non-operating investments/surplus assets including those arising out of binding sale/indemnification contracts, etc.) as deemed appropriate. The total value for equity shareholders is then divided by the estimated total number of equity shares as on the appointed date in order to work out the value per equity share of the Companies.

#### **Market Price Method**

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. But there could be situations where the value of the share as quoted on the stock market would not be regarded as a proper index of the fair value of the share especially where the market values are fluctuating in a volatile capital market. Further, in the case of a merger, where there is a question of evaluating the shares of one company against those of another, the volume of transactions and the number of shares available for trading on the stock exchange over a reasonable period would have to be of a comparable standard.

In the present case, the shares of MFL and MCL are listed on BSE and/or NSE and there are regular transactions in their equity shares. In these cases, the volume weighted average share price of the respective Companies over a reasonable period have been considered for determining the value of the Companies under the market price methodology.

#### **Discounted Cash Flows (DCF) Method**

Under the DCF method the projected free cash flows to the firm are discounted at the weighted average cost of capital. The sum of the discounted value of such free cash flows is the value of the firm.

Using the DCF analysis involves determining the following:

##### *Estimating future free cash flows:*

Free cash flows are the cash flows expected to be generated by the company that are available to all providers of the company's capital – both debt and equity.

##### *Appropriate discount rate to be applied to cash flows i.e. the cost of capital:*

This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and creditors), weighted by their relative contribution to the total capital of the company. The opportunity cost to the capital provider equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

To arrive at the total value available to the equity shareholders of each of the Companies, value arrived above under DCF method for the Companies/ operating subsidiaries is adjusted for the value of loans, cash, non-operating assets/liabilities (e.g value of non-operating investments/surplus assets including those arising out of with binding sale/indemnification agreements, impact of contingent liability, etc.) as deemed appropriate. The total value for equity shareholders is then divided by the estimated total number of equity shares of the respective companies as on the appointed date of the proposed merger in order to work out the value per equity share of the Companies.



### Net Asset Value (NAV) Methodology

The asset based valuation technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. This valuation approach is mainly used in case where the firm is to be liquidated i.e. it does not meet the "going concern" criteria or in case where the assets base dominate earnings capability. A Scheme of Amalgamation would normally be proceeded with, on the assumption that the companies amalgamate as going concerns and an actual realization of the operating assets is not contemplated. The operating assets have therefore been considered at their book values. In such a going concern scenario, the relative earning power is of importance to the basis of amalgamation, with the values arrived at on the net asset basis being of limited relevance.

We have computed the Net Asset Value of equity shares of the Companies. We have considered the balance sheets as of 31 March 2013 and made suitable adjustments for contingent liabilities, goodwill on acquisition/consolidation, etc.

### Price of Recent Transaction (PORT) method

The price of an equity share as transacted between unrelated but willing buyers/sellers having adequate/full information is normally considered as good representative of the value of the equity shares of that company. There could be situations where PORT may not be representative of fair value, e.g in case of rights issue or cases where transaction is only an internal restructuring within the Group.

In the present case, recent transactions (referred to as the Conditions Precedent) in shares/business of MFL and MCL have been considered by us under the PORT method.

### BASIS OF AMALGAMATION

The basis of merger of MCL into MFL 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 methodologies, for the purposes of recommending a fair exchange ratio of equity shares it is necessary to arrive at a single value for the shares of MCL and MFL. It is however important to note that in doing so, we are not attempting to arrive at the absolute equity values of MCL and MFL but at their relative values to facilitate the determination of a fair exchange ratio. For this purpose, it is necessary to give appropriate weights to the values arrived at under each methodology.

The Companies were valued using various methods. However comparatively lower weightage has been given to value as per NAV Method.

The per share value for each company has been adjusted for ESOP dilution as considered appropriate.

In the ultimate analysis, valuation will have to be arrived at by the exercise of judicious discretion by Valuer and judgment taking into account all the relevant factors. There will always be several factors, e.g. quality and integrity of the management, present and prospective competition, yield on comparable securities and market sentiment, 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 recognised in judicial decisions.





## N. M. RAIJI & CO.

The fair exchange ratio of equity shares of MCL and MFL have been arrived at on the basis of a relative equity valuation for each of the Companies based on the various methodologies explained herein earlier 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, key underlying assumptions and limitations.

As two Valuers i.e. we & SRBC are involved in this exercise, both of us have independently arrived at different values per share of the Companies. To arrive at the consensus on the exchange ratio for the proposed merger, appropriate averaging and rounding off in the values arrived at by the two valuers have been carried out.

In light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined herein above and subject to fulfillment of the Conditions Precedent, we recommend following fair exchange ratio of equity shares for the merger:

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

Respectfully submitted,



N. M. Raiji & Co.,  
Chartered Accountants

Place: Mumbai

Date: 15 June, 2013

