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December 4, 2013

The Company Secretary
Mahindra Forgings Limited
Mumbai.

**Re: Recommendation of Fair Exchange Ratio for the proposed Merger of Mahindra Composites Limited
with Mahindra Forgings Limited**

This has reference to your request for the relevant computations based on which our recommendation of the fair equity share exchange ratio for the proposed merger of Mahindra Composites Limited ("MCL") with Mahindra Forgings Limited ("MFL"), as set out in our valuation report dated June 15, 2013 (the "Report").

As requested, enclosed along with this letter are the relevant computations which, inter alia, have formed the basis for our arriving at the recommendation of the fair equity share exchange ratio for the proposed merger.

In this connection, we may mention that the computations enclosed herewith need to be viewed in conjunction with the Report and the documents referred to in the Report. The recommendation of the fair equity share exchange ratio for the proposed merger was arrived at on the basis of a relative valuation of the equity shares of MFL and MCL, based on the various methodologies detailed in the Report and various qualitative factors relevant to each of the companies, having regard to the information base, management representations, key underlying assumptions and limitations, as referred to in the Report.

We trust the above meets your requirements.

Thanking you,
Yours faithfully,



N. M. RAIJI & CO.
Chartered Accountants

Encl: Annexures

Merger of Mahindra Composites Limited with Mahindra Forgings Limited

Company Name	Face Value Per Share	Fair Value Per Share	Fair Value Rounded Off
Mahindra Forgings Limited ('MFL')	Rs. 10	Rs. 52.83	Rs. 52.50
Mahindra Composites Limited ('MCL')	Rs. 10	Rs. 47.77	Rs. 47.00

Recommended Swap Ratio

Company Name	Recommended Swap Ratio
Mahindra Composites Limited ('MCL')	90 shares of MFL for every 100 shares held



Mahindra Forgings Limited (Valuation as on March 31, 2013)

Method	Schedule	Price per Method	Weightage	Weighted Price
Discounted Cash Flow Method	1	72.73	40%	29.09
Comparable Companies Method	2	13.76	20%	2.75
Price of Recent Transaction	3	81.00	15%	12.15
Weighted Average Traded Price	4	47.49	15%	7.12
Net Asset Value Method	5	17.10	10%	1.71
Fair Value per Share (in Rs.)		*		52.82

Schedule 1: Discounted Cash Flow Method

	Amount (in Rs. Lakhs)	Amount (in TEUR)
Particulars	MFL India	MFL Europe
NPV of cash flow for explicit & perpetuity period	40,893.75	1,08,933.63
Add: Other Adjustments *	5,975.63	18,572.09
Total Value of Business	46,869.38	1,27,505.72
Exchange Rate	1.00	70.00
Total Value of Business	46,869.38	89,254.00
Total Value of Business (in Rs. Lakhs)		1,36,123.38
Less: Loan Funds (as at 31 March 2013) (in Rs. Lakhs)		68,357.00
Total Value for Equity Shareholders (Indian Operations + European Operations) (in Rs. Lakhs)		67,766.38
Number of Shares after considering ESOP		9,31,75,837
Fair Value per share (in Rs.)		72.73

* Other Adjustments include surplus assets, P.V. of accrued tax benefits at the end of explicit period, Cash Inflow on issue of ESOP & Contingent Liabilities.

Schedule 2: Comparable Companies Method

	Amount (in Rs. Lakhs)	Amount (in TEUR)
Particulars	MFL India	MFL Europe
Average EBITDA	6,326.53	10,111.61
EV/EBITDA Multiple	6.25	4.80
Enterprise Value	39,540.81	48,535.73
Add: Other Adjustments **	4,708.53	4,219.16
Total Value of Business	44,249.34	52,754.89
Exchange Rate	1.00	70.00
Total Value of Business	44,249.34	36,928.42
Total Value of Business (in Rs. Lakhs)		81,177.76
Less: Loan Funds (in Rs. Lakhs)		68,357.00
Operations + European Operations) (in Rs. Lakhs)		12,820.76
Number of Shares after considering ESOP		9,31,75,837
Fair Value per share (in Rs.)		13.76

** - Other Adjustments include surplus assets, one-time exceptional items and cash inflow on issue of ESOP.



Schedule 3: Price of Recent Transaction

Based on the proposed share purchase agreement between Participaciones Internacionales Autometal Dos (a CIE Automotive Group Company) and Mahindra and Mahindra Limited, there will be a sale of 4,85,29,500 Equity Shares of Rs. 10 each, aggregating 52.65% of the Equity Share Capital of Mahindra Forgings Limited at Rs. 81.00 per share. This has been considered as the fair value under this method.

Schedule 4: Weighted Average Traded Price (of 100 trading days)

Particulars	Details
Period	January 15, 2013 to June 07, 2013
No. of Shares traded	50,84,726
Total Turnover (in Rs.)	24,14,51,506
Weighted Average Price (in Rs.)	47.49

Schedule 5: Net Asset Value Method

Particulars	Amount (in Rs. Lakhs)
Share Capital	9,217.33
Reserves & Surplus	66,224.23
Add: Cash Inflow on Issue of ESOP	552.29
Less: Goodwill	60,064.70
Total Net Assets	15,929.15
Number of Shares after considering ESOP	9,31,75,837
Fair Value per share (in Rs.)	17.10



Mahindra Composites Limited (Valuation as on March 31, 2013)

Method	Schedule	Price per Method	Weightage	Weighted Price
Discounted Cash Flow Method	1	72.18	30%	21.65
Comparable Companies Method	2	21.59	30%	6.48
Price of Recent Transaction	3	74.70	15%	11.21
Weighted Average Traded Price	4	33.93	15%	5.09
Net Asset Value Method	5	33.35	10%	3.34
Fair Value per Share (in Rs.)				47.77

Schedule 1: Discounted Cash Flow Method

Particulars	Amount (in Rs. Lakhs)
NPV of cash flow for explicit & perpetuity period	3,865.12
Add: Other Adjustments *	124.57
Total Value of Business (in Rs. Lakhs)	3,989.69
Less: Loan Funds (as at 31 March 2013)	757.38
Value for Equity Shareholders (in Rs. Lakhs)	3,232.31
Number of Shares after considering ESOP	44,78,241
Fair Value per share (in Rs.)	72.18

* Other Adjustments include surplus assets, P.V. of accrued tax benefits at the end of explicit period, Cash Inflow on issue of ESOP & Contingent Liabilities.

Schedule 2: Comparable Companies Method

Particulars	Amount (in Rs. Lakhs)
Average EBIDTA	239.02
EV/EBITDA Multiple	7.00
Enterprise Value	1,673.14
Add: Other Adjustments **	51.25
Total Value of Business (in Rs. Lakhs)	1,724.39
Less: Loan Funds (as at 31 March 2013)	757.38
Value for Equity Shareholders (in Rs. Lakhs)	967.01
Number of Shares after considering ESOP	44,78,241
Fair Value per share (in Rs.)	21.59

** - Other Adjustments include surplus assets, one-time exceptional items and cash inflow on issue of ESOP.



Schedule 3: Price of Recent Transaction

Based on the proposed share purchase agreement between Participaciones Internacionales Autometal Dos (a subsidiary of Autometal S.A.) and Mahindra and Mahindra Limited, there will be a sale of 13,41,203 Equity Shares of Rs. 10 each, aggregating 30.38% of the Equity Share Capital of Mahindra Composites Limited at Rs. 74.70 per share.

Also based on the proposed share purchase agreement between Participaciones Internacionales Autometal Dos (a subsidiary of Autometal S.A.) and Mahindra Holdings Limited (a subsidiary of Mahindra and Mahindra Limited) for sale of 2,20,000 Equity Shares of Rs. 10 each aggregating 4.98% of the Equity Share Capital of Mahindra Composites Limited. These transactions have been considered as the fair value under this method.

Schedule 4: Weighted Average Traded Price (of 100 trading days)

Particulars	Details
Period	December 27, 2013 to June 07, 2013
No. of Shares traded	1,54,194
Total Turnover (in Rs.)	52,31,066
Weighted Average Price (in Rs.)	33.93

Schedule 5: Net Asset Value Method

Particulars	Amount (in Rs. Lakhs)
Share Capital	441.30
Reserves & Surplus	1,021.80
Add: Cash Inflow on Issue of ESOP	30.49
Total Net Assets	1,493.59
Number of Shares after considering ESOP	44,78,241
Fair Value per share (in Rs.)	33.35

