

3 December 2013

To,

Mahindra Forgings Limited

Mahindra Towers,
P K Kurne Chowk,
Worli, Mumbai – 400018

Mahindra Ugine Steel Co. Ltd

74, Ganesh Apartment,
7th Floor, L. J Road,
Mahim, Mumbai - 400016

Mahindra Hinoday Industries Ltd

Mahindra Towers,
P K Kurne Chowk,
Worli, Mumbai - 400018

Mahindra Investment India Private Limited

Mahindra Towers,
P K Kurne Chowk,
Worli, Mumbai - 400018

Mahindra Gears International Limited

IFS Court,
Twenty Eight Cybercity,
Ebene, Mauritius

Participaciones Internacionales Autometal Tres, S.L.

Iparraguirre nº 34,
2º derecha, 48011
Bilbao (Spain)

Sub: Supplement to our report dated 15 June 2013 on "Recommendation of fair exchange ratio for the proposed merger of Systech entities (as defined herein under) and PIA 3"

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 Ugine Steel Co. Ltd ('MUSCO'), Mahindra Hinoday Industries Ltd ('MHIL'),



Mahindra Gears International Limited ('MGIL'), Mahindra Investments (India) Private Limited ('MIPL') and Participaciones Internacionales Autometal Tres, S.L. ('PIA 3') into Mahindra Forgings Ltd. (hereinafter referred to as "MFL") with effect from 01 October 2013 ('Appointed date'). The exchange ratios have 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 (all companies mentioned earlier except MFL are referred to as 'Merging Entities'). 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.

MUSCO has been valued based on MP method, Comparable Companies Multiples (CCM) method, DCF method and NAV method.

MHIL and PIA 3 have been valued based on CCM method, PORT method, DCF method and NAV method.

MGIL and MIPL have been valued based on CCM method, DCF method and NAV method.

We have considered it appropriate to assign 45% weight to MP method & CCM 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) MUSCO - ₹ 149.0 per equity share of Rs. 10/- each fully paid up
- 3) MHIL - ₹ 57.5 per equity share of Rs. 10/- each fully paid up
- 4) MGIL - ₹ 10.5 per equity share of Rs. 10/- each fully paid up
- 5) MIPL - ₹ 8.9 per equity share of Rs. 10/- each fully paid up
- 6) PIA 3 - ₹ 55.0 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 the Merging Entities into MFL is a ratio of:

- 284 (Two hundred and eighty four) equity shares of MFL of ₹ 10/- each fully paid up for every 100 (One hundred) equity shares of MUSCO of ₹ 10/- each fully paid up.



- 110 (One hundred and ten) equity shares of MFL of ₹ 10/- each fully paid up for every 100 (One hundred) equity shares of MHIL of ₹10/- each fully paid up.
- 20 (Twenty) equity shares of MFL of ₹ 10/- each fully paid up for every 100 (One hundred) equity shares of MGIL of Euro 1/- each fully paid up.
- 17 (Seventeen) equity shares of MFL of ₹ 10/- each fully paid up for every 100 (One hundred) equity shares of MIPL of ₹10/- each fully paid up.
- 105 (One hundred and five) equity shares of MFL of ₹ 10/- each fully paid up for every 100 (One hundred) equity shares of PIA 3 of Euro 1/- 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
Equity value				
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
Equity value as at 31 March 2013		100.0	52.4	4,829.6
Number of equity shares (in millions)				92.2
Value per equity share (₹ / share) prior to adjustment of ESOPs				52.4
Value per equity share (₹ / share) - after adjustment of ESOPs and rounding off				52.5

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
Equity value (₹ mn) as at 31 March 2013		3,732.0

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
Equity value as at 31 March 2013	7,466.0

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
Enterprise value	5,385.3	7,767.0
Net debt**	74.5	(7,043.6)
Equity Value	5,459.8	723.5
Total equity value of MFL	6,183.2	

*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)
Net worth as at 31 March 2013	791.0

Include goodwill, adjustment in debt and contingent liabilities



Working Note 2- Valuation of MUSCO

Currency: ₹ mn	Notes	Weights (%)	Value per share	Value
Equity value				
Market price method	2.1	10.0	47.9	1,555.4
Comparable companies' quoted multiple method				
EV / EBITDA multiple (FY13)	2.2	35.0	136.4	4,432.1
Discounted cash flows method	2.3	45.0	195.8	6,361.1
Assets value method	2.4	10.0	96.1	3,122.9
Equity value as at 31 March 2013		100.0	150.3	4,881.6
Number of equity shares (in millions)				32.48
Value per equity share (₹ / share) prior to adjustment of ESOPs				150.3
Value per equity share (₹ / share) - after adjustment of ESOPs and rounding off				149.0

Note: We have assigned lower weight to market price compared to MFL and MCL as we believe that the transaction of sale of MSSPL and surplus land will have significant impact on the current market price of MUSCO considered for this valuation analysis.

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

Currency: ₹	Volume (daily average of NSE only)	Price
Average of daily weighted average price for 60 trading days ending 7 June 2013	16,653	47.884
Number of equity shares (in million)		32.5
Equity value (₹ mn) as at 31 March 2013		1,555.4

Source: Capitaline using only NSE data (since trading is higher on NSE)



Working Note 2.2 – Valuation of MUSCO as per Comparable Companies' Quoted Multiple method

Currency: ₹ mn	Value
EV/ EBITDA multiple	5.0
EBITDA of Company	693.5
Value	3,467.4
Other adjustments*	297.5
Enterprise value as at 31 March 2013	3,764.9
Net debt**	667.2
Equity value as at 31 March 2013	4,432.1

*Include Net deferred tax assets/ (Liabilities), PV of tax benefits at Rudrapur & Paninagar, Value of surplus assets/(liabilities) of Steel business (Indemnity provided by Mahindra & Mahindra Limited) and CWIP

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

Working Note 2.3 – Valuation of MUSCO as per DCF method

Currency: ₹ mn	Value
Present value of cash flows (explicit period and terminal period)	5,283.9
Other adjustments*	410.0
Enterprise value as at 31 March 2013	5,693.9
Net debt**	667.2
Equity value as at 31 March 2013	6,361.1

*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 2.4 – Valuation analysis of MUSCO as per NAV method

Currency: ₹ mn	Notes	Value
Share capital - paid up value		324.8
Reserves and surplus		1,355.9
Other adjustments		1,442.2
Net worth as at 31 March 2013		3,122.9



Working Note 3.1- Valuation of MHIL

Currency: ₹ mn	Notes	Weights (%)	Value
Equity value			
Comparable companies' quoted multiple method			
EV / EBITDA multiple (FY13)	3.1.1	45.0	1,692.0
Price of Recent Investment/ Transaction method (CIE)	3.1.2	22.5	4,140.7
Discounted cash flows method	3.1.3	22.5	3,650.4
Assets value method	3.1.4	10.0	1,324.1
Equity value as at 31 March 2013		100.0	2,646.8
Number of equity shares (in millions)			46.6
Value per equity share (₹ / share)			56.8
Value per equity share (₹ / share) - rounded			57.5

Working Note 3.1.1 – Valuation of MHIL as per Comparable companies' multiple method

Currency: ₹ mn	Value
EV/ EBITDA multiple	9.5
EBITDA	284.2
Value	2,700.0
Other adjustments*	302.6
Enterprise value as at 31 March 2013	3,002.5
Net debt**	(1,310.6)
Equity value as at 31 March 2013	1,692.0

*Include present value of tax benefits and CWP

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

Working Note 3.1.2 – Valuation analysis of MHIL as per PORT method

Currency: ₹ mn	Value
Number of equity shares outstanding as at 31 March 2013 (in million)	46.6
Price per share (₹)	88.9
Equity value as at 31 March 2013	4,140.7

Based on price paid by CIE Automotive S.A. to Mahindra and Mahindra Limited for acquisition of 30,254,052 number of shares.



Working Note 3.1.3 – Valuation analysis of MHIL as per DCF method

Currency: ₹ mn	Value
Present value of cash flows (explicit period and terminal period)	4,963.7
Other adjustments*	(2.7)
Enterprise value as at 31 March 2013	4,960.9
Net debt**	(1,310.5)
Equity value as at 31 March 2013	3,650.4

*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 3.1.4 – Valuation analysis of MHIL as per NAV method

Currency: ₹ mn	Value
Share capital - paid up value	465.8
Reserves and surplus	925.0
Other adjustments	(28.1)
Net worth as at 31 March 2013	1,362.7



Working Note 4- Valuation of Mahindra Gears International Ltd (MGIL)

Currency: Euro mn	Notes	Mar13	Mar13
Value of investments in MGGL	4.1		3.0
Current assets			
Cash and bank balances		0.0	
Other current assets		5.9	
		<u>5.9</u>	
Current liabilities & provisions			
Current liabilities		0.0	
		<u>0.0</u>	
Net current assets (NCA)			5.9
Loan funds			
Secured loans		5.9	
Unsecured loans		-	5.9
Net equity value as at 31 March 2013			3.0
Number of equity shares (in millions)*			23.0
Value per equity share (Euro / share) -MGIL			0.1
Exchange rate as at Valuation date (7 June 2013)			76.2
Value per equity share (₹ / share)			9.9
Value per equity share (₹ / share) - rounded			10.5

*After share capital restructuring

Note 4.1: Value of investment in Mahindra Gears Global Ltd (MGGL)

Currency: Euro mn	Notes	Mar13	Mar13
Value of investments in Metacastello	4.2		5.65
Current assets			
Cash and bank balances		0.0	
Other current assets		6.0	
		<u>6.0</u>	
Current liabilities & provisions			
Current liabilities		0.1	
		<u>0.1</u>	
Net current assets (NCA)			5.9
Loan funds			
Secured loans		5.9	
Unsecured loans		-	5.9
Net worth of MGGL as at 31 March 2013			5.6
Stake held by MGIL (%)			53.3
Value of stake of MGIL as at 31 March 2013			3.0



Note 4.2: Value of investment in Metalcastello SA

<i>Currency: Euro mn</i>	Notes	Weights (%)	Price per share	Value
Equity value				
Comparable companies' quoted multiple method				
EV / EBITDA multiple (FY13)	4.2.1	45.0	-	-
Discounted cash flows method - GGM	4.2.2	45.0	0.7	13.1
Assets value method	4.2.3	10.0	-	-
Equity value as at 31 March 2013		100.0	0.3	5.9
Stake held by MGGL (%)				95.6
Value of investment in Metalcastello SA				5.7

Working Note 4.2.1 – Valuation of Metalcastello SA as per Comparable companies' quoted multiple method

<i>Currency: Euro mn</i>	Value
EV/ EBITDA multiple	5.5
EBITDA of Company	6.3
Value	34.5
Other adjustments*	(0.3)
Enterprise value at at 31 March 2013	34.2
Net debt**	(53.2)
Equity value as at 31 March 2013	-

*Include Net deferred tax assets/ (Liabilities), PV of tax benefits and CWP

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

Working Note 4.2.2 – Valuation of Metalcastello SA as per DCF method

<i>Currency: EURO mn</i>	Value
Present value of cash flows (explicit period and terminal period)	66.2
Other adjustments*	0.1
Enterprise value as at 31 March 2013	66.4
Net debt**	(53.2)
Equity value as at 31 March 2013	13.1

*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 4.3 – Valuation of Metalcastello SA as per NAV method

Currency: Euro mn	Value
Share capital - paid up value	20.0
Reserves and surplus	(1.5)
Other adjustments	(26.6)
Net worth as at 31 March 2013	(8.0)



Working Note 5 - Valuation of Mahindra Investments (India) Pvt. Ltd. (MIPL)

Currency: ₹ mn	Notes	Value
Value of Mahindra Gears Transmission Pvt. Ltd.	5.1	923.8
Stake held by MGH1 (%)		76.7
Value of investment in MGTPL		708.3
Add: Balances of cash and cash equivalents		0.5
Equity value as at 31 March 2013		708.8
Number of equity shares (in millions)		80.1
Value per equity share (₹ / share)		8.9
Value per equity share (₹ / share) - rounded		8.9

Working Note 5.1 - Valuation of MGTPL

Currency: ₹ mn	Notes	Weights (%)	Value per share	Value
Equity value				
Comparable companies' quoted multiple method				
EV / EBITDA multiple (FY13)	5.1.1	45.0	23.6	356.2
Discounted cash flows method - GGM	5.1.2	45.0	102.7	1,552.1
Assets value method	5.1.3	10.0	43.0	650.5
Equity value as at 31 March 2013		100.0	61.1	923.8

Working Note 5.1.1 – Valuation of MGTPL as per Comparable companies' quoted multiple method

Currency: ₹ mn	Value
EV/ EBITDA multiple	4.5
EBITDA	114.5
Value	515.5
Other adjustments*	173.1
Enterprise value as at 31 March 2013	688.5
Net debt**	(332.3)
Equity value as at 31 March 2013	356.2

*Include Net deferred tax assets/ (Liabilities), PV of tax benefits and CWP

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



Working Note 5.1.2 – Valuation of MGTPL as per DCF method

Currency: ₹ mn	Value
Present value of cash flows (explicit period and terminal period)	1,880.9
Other adjustments*	3.5
Enterprise value as at 31 March 2013	1,884.4
Net debt**	(332.3)
Equity value as at 31 March 2013	1,552.1

*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 5.1.3 – Valuation of MGTPL as per NAV method

Currency: ₹ mn	Value
Share capital - paid up value	151.1
Reserves and surplus	499.4
Net worth as at 31 March 2013	650.5



Working note 6: Valuation of Participaciones Internacionales Autometal Test SL (PIA 3)

Currency: Euro mn	Notes	Value
Value of investments in CIE forgings	6.1	43.2
Cash and bank balances		0.0
Loan funds		-
Net worth as at 31 March 2013		43.2
Number of equity shares (in millions)		60.0
Value per equity share (Euro / share)		0.7
Exchange rate as at Valuation date (7 June 2013)		76.2
Value per equity share (₹ / share)		54.9
Value per equity share (₹ / share)-rounded		55.0

Working Note 6.1- Valuation analysis of PIA 3

Currency: Euro mn	Notes	Weights (%)	Value per share	Value
Equity value				
Comparable companies' quoted multiple method				
EV / EBITDA multiple (FY13)	6.1.1	45.0	0.4	26.5
Price of Recent Investment/ Transaction method (CIE)	6.1.2	22.5	1.0	60.0
Discounted cash flows method - GGM	6.1.3	22.5	1.3	79.0
Assets value method	6.1.4	10.0	0.0	0.2
Equity value as at 31 March 2013		100.0	0.7	43.2

Working Note 6.1.1 – Valuation analysis of PIA 3 as per Comparable companies' quoted multiple method

Currency: Euro mn	Value
EV/ EBITDA multiple	4.5
EBITDA of Company	11.1
Add: Change in management fees	6.5
Adjusted EBITDA	17.6
Value	79.1
PV of tax benefits	7.4
Enterprise value as at 31 March 2013	86.5
Less: Net Debt	(60.0)
Equity value as at 31 March 2013	26.5



Working Note 6.1.2 – Valuation analysis of PIA 3 as per PORT method

Currency: Euro mn	Value
Number of equity shares outstanding as at 31 March 2013 (in million)	60.0
Price per share (Euro)	1.0
Equity value as at 31 March 2013	60.0

Based on price paid by PIA 3 to acquire (directly/ indirectly) 100% stake in three operating entities.

Working Note 6.1.3 – Valuation analysis of PIA 3 as per DCF method

Currency: EURO mn	Value
Present value of cash flows (explicit period and terminal period)	131.7
PV of tax benefits	7.4
Enterprise value as at 31 March 2013	139.0
Less: Net Debt	(60.0)
Equity value as at 31 March 2013	79.0

Working Note 6.1.4 – Valuation of PIA 3 as per NAV method

Currency: EURO mn	Value
Net block of fixed assets	58.9
Net current assets (NCA) (excluding cash)	1.2
Loan funds	(60.0)
Net worth as at 31 March 2013	0.2

