

CONSOLIDATION OF FORGING OPERATIONS

Proposed amalgamation of Mahindra Stokes Holding Company Limited, Mahindra Forgings Overseas Limited and Mahindra Forgings Mauritius Limited with Mahindra Forgings Limited

Current merger plan

The current merger plan involves merging the three entities – Mahindra Forgings Overseas Limited (MFOL) (which ultimately owns 100% of Jeco Holdings AG), Mahindra Forgings Mauritius Limited (MFML) (which ultimately owns 100% stake in Schoneweiss & Co. GmbH) and Mahindra Stokes Holding Company Limited (MSCHL) (which owns 99.8% of Stokes Group Ltd.) into Mahindra Forgings Ltd. After the merger, Jeco Holdings AG, Schoneweiss & Co. GmbH and Stokes Group Ltd., the operating companies, will become close to 100% subsidiaries of Mahindra Forgings. This means that Mahindra Forgings shareholders will participate in all these entities.

Background of the entities in the proposed merger

Mahindra Forgings

Pursuant to a Scheme of Arrangement between Mahindra Forgings Ltd. and Amforge Industries Ltd the Chakan unit of Amforge had been transferred to the Mahindra Forgings Ltd. with effect from 1st April 2005. Currently, Mahindra Forgings Ltd. has an installed capacity of 42,000 MT. It posted sales of Rs 217 cr. for FY07.

Stokes Group

M&M through its subsidiary holds a controlling stake in Stokes Group Ltd. Stokes Forgings Group is the UK's largest automotive forgings group with almost 100 years of forging experience and has installed capacity of 37,000 MT. The Group operates from 3 sites in the West Midlands. Stokes Group had a turnover of approx. GBP 27 mn for FY07. M&M further infused GBP 2 mn in the company over last year.

Jeco Holdings AG

M&M through its subsidiaries holds a controlling stake in Jeco Holding AG, one of the top five forging companies in Germany in September 2006. JECO Holding AG has over 120 years of experience is primarily focused on the Truck, Bus & Trailer market. The company has forging production of 100,000 tpa and revenue turnover of approx. Euro 193 mn for FY07.

Schoneweiss & Co. GmbH

M&M through its subsidiaries holds a controlling stake in Schoneweiss & Co. GmbH, a leading company in the forgings sector in Germany in December 2006. Schoneweiss has over 140 years of experience in the forging sector and is one of the top five axle beam manufacturers in the world, specializing in suspension, power train and engine parts. The company has forging capacity of 50,000 tpa and turnover of approx. Euro 92 mn for FY07. Schoneweiss has three manufacturing plants.

Reasons for Merger

The current integration is being implemented with a view to consolidate all the forging operations of the Mahindra group under one entity. As a result of this integration, Mahindra Forgings Ltd. will be the entity – A LISTED ENTITY- through which all the global forgings business of the Mahindra group will held.

The advantages of the merger are listed below

- i. Consolidation of all forging businesses in one listed entity
- ii. Aligns all shareholder interests
- iii. Minority shareholder friendly – consolidation under listed entity – all shareholders are able to participate in the global business
- iv. Best positioned to make decisions on efficient utilization of resources (i.e. manufacturing locations, product location decisions, R&D investments, etc) without any conflict of interests
- v. Creating of a forging major with a consolidates sales of over Rs.2,000 cr. – Second largest forging player from India
- vi. Ability to talk to global OEMs / Tier I suppliers as a significant player with multi-locational advantages
- vii. Access to best in class technology from Europe for the entire forging business – leading to establishing technology leadership
- viii. Synergies to be derived from dove tailing of operations, sourcing etc

Current status of merger plan

The Board of Directors of Mahindra Forgings Ltd. met and approved on June 05, 2007 the scheme of amalgamation Mahindra Stokes Holding Company Limited, Mahindra Forgings Overseas Limited and Mahindra Forgings Mauritius Limited with Mahindra Forgings Limited. The board of directors also accepted the valuation report submitted by the valuers Messrs N.M.Raiji & Co., Chartered Accountants and Messrs Dalal & Shah, Chartered Accountants appointed for the purpose of recommending the share exchange ratio.

Based on the valuation report, the recommended swap ratios are as follows

- a. **To the equity shareholders of MSHCL:**
20 equity shares of Rs. 10/- each fully paid up of the Company to be issued and allotted at par for every 103 equity shares of Rs. 10/- each fully paid up in MSHCL.
- b. **To the equity shareholders of MFOL:**
20 equity shares of Rs. 10/- each fully paid up of the Company to be issued and allotted at par for every 49 equity shares of €1 each fully paid up in MFOL.
- c. **To the equity shareholders of MFML:**
20 equity shares of Rs. 10/- each fully paid up of the Company to be issued and allotted at par for every 73 equity shares of €1 each fully paid up in MFML.

The proposed Scheme is subject to the requisite approval of the shareholders / creditors of the Company, the shareholders / creditors of the transferor Companies, other statutory authorities in the respective jurisdictions and subject to the sanction / confirmation by Honourable High Court of Judicature at Bombay and any other appropriate authority

Post Merger Scenario

Financials

The combined turnover of all the entities involved in the merger is estimated to be in the region of Rs. 2,000 cr based on FY07 financials, making it the second largest forging player in the Indian market.

On a Pro Forma basis the Sales and EBITDA numbers for MFL consolidated is estimated to be as follows

(Rs cr.) (FY07)	MFL Standalone (Pre Merger)	MFL Combined # (Pro Forma Estimates)
Net Sales	217	2,001
EBITDA	24	245

If sales & EBITDA of all the entities involved in the proposed amalgamation were to be added, the resulting numbers would be as disclosed above.

Shareholding

As a result and upon the coming into effect of the above described scheme of arrangement, Mahindra & Mahindra shareholding in MFL is expected to increase from current 47.1% to 60.6%. Public shareholding, accordingly, is expected to be 39.4%. The total capital of MFL is expected to increase from current ~28 mn shares to ~68 mn shares.

Appointed Date “ is 1st April 2007 as per the scheme which is subject to the requisite approval of the shareholders / creditors of the Company and transferor companies and other statutory authorities and subject to the sanction / confirmation by Honourable High Court of Judicature at Bombay and any other appropriate authority.