



# SHARP & TANNAN

Chartered Accountants

12<sup>th</sup> January, 2017

<b>The Board of Directors</b> <b>Mukand Limited.</b> Bajaj Bhawan, 3 <sup>rd</sup> floor, Jamnalal Bajaj Marg, 226 Nariman Point, Mumbai- 400021.	<b>The Board of Directors</b> <b>Mukand Vijaynagar Steel Limited</b> Bajaj Bhawan, 3 <sup>rd</sup> floor, Jamnalal Bajaj Marg, 226 Nariman Point, Mumbai- 400021.
<b>The Board of Directors</b> <b>Mukand Alloy Steels Private Limited</b> Flat No. 11, 7 West Wing, Shah House, Janki Kutir, Juhu Tara Road, Vile Parle (W) Mumbai - 400049.	

Dear Sir/Madam,

**Re: Recommendation of share entitlement ratio for the proposed amalgamation of Mukand Vijaynagar Steel Limited into Mukand Alloy Steel Private Limited**

This is with reference to the engagement letter dated 20<sup>th</sup> December, 2016 and discussions held, wherein we, M/s Sharp & Tannan (referred to as “Valuer” or “we” or “us”), have been given to understand that the Management is contemplating a restructuring through scheme of arrangement and amalgamation amongst Mukand Limited (“MKL”), Mukand Vijaynagar Steel Limited (“MVSL”) and Mukand Alloy Steels Private Limited (“MASPL”) and their respective shareholders and creditors in terms of sections 230 to 232 of Companies Act, 2013 and other relevant provisions of the Companies Act, 1956 or Companies Act, 2013 as may be applicable (“Scheme”) which includes slump sale of alloy steel rolling and finishing business into MVSL (“Slump Sale”) and thereafter amalgamation of MVSL (post Slump Sale) into MASPL (“Amalgamation”).

Towards the above, we have been requested to recommend a share entitlement ratio (“Entitlement Ratio”) for the proposed Amalgamation. As per the draft Scheme provided to us, appointed date of the proposed Amalgamation is 1<sup>st</sup> Jan, 2017 (“Appointed Date”). We are pleased to present herewith our report on the same.

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For MUKAND LIMITED

*[Signature]*  
K. S. MALLYA  
Company Secretary

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 Also at Pune. Associate Offices : Bangalore, Chennai, Goa & New Delhi

## 1. Brief Background & Purpose

### 1.1 Mukand Limited

- 1.1.1 MKL is a listed public company incorporated on 29<sup>th</sup> November, 1937. It is primarily engaged in the manufacturing of specialty steel products, industrial machinery and stainless steel. The major products and services of specialty steel segment includes billets, blooms, rounds wire rods, bars rods and sections, bright bars and wires of special and alloy steel and stainless steel.
- 1.1.2 Equity shares of MKL are listed on National Stock Exchange of India Limited and BSE Limited.
- 1.1.3 The issued & paid up equity share capital of MKL as at 30<sup>th</sup> September 2016 was INR 1410.4 mn divided into 14,14,05,861 equity shares of INR 10/- each (face value).
- 1.1.4 We have been informed by the management of MKL that there has been no change in the share capital of MKL till the date of this report.

### 1.2 Mukand Vijaynagar Steel Limited

- 1.2.1 MVSL is an unlisted public company incorporated on 8<sup>th</sup> September, 1995. It has been incorporated inter alia for manufacture of alloy steel bars, rods, structurals, rails, etc.
- 1.2.2 Presently, there are no significant business operations being carried on in MVSL. After the proposed slump sale of Alloy Steel Business of MKL, MVSL's business shall mainly comprise of Alloy Steel Rolling and Finishing Business.
- 1.2.3 The issued & paid-up equity share capital of MVSL as at 31<sup>st</sup> December 2016 was INR 7.07 Crs. divided into 70,66,243 equity shares of INR 10/- each (face value). We have been informed by the Management of MVSL that there has been no change in the share capital of the company till date of this report.
- 1.2.4 The entire equity share capital of MVSL is held by MKL (along with its nominees).
- 1.2.5 The Management of MVSL represented that MVSL does not have any outstanding warrants /options/convertible securities, as at the valuation date hereof.

### 1.3 Mukand Alloy Steel Private Limited

- 1.3.1 MASPL is an unlisted private company incorporated on 15<sup>th</sup> January, 2015. It has been incorporated to carry out the alloy steel manufacturing activities. Presently, there are no significant business operations being carried on in MASPL.



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For MUKAND LIMITED  
  
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- 1.3.2 The issued & paid-up equity share capital of MASPL as at 31<sup>st</sup> December 2016 was INR 1,00,000 divided into 10,000 equity shares of INR 10/- each (face value). We have been informed by the Management of MASPL that there has been no change in the share capital of the company till date of this report.
- 1.3.3 The entire equity share capital of MASPL is held by MKL (along with its nominees).
- 1.3.4 The Management of MASPL represented that MASPL does not have any outstanding warrants /options/convertible securities, as at the valuation date hereof.

## 2. SOURCES OF INFORMATION

In connection with preparing this Valuation Report, we have received & relied upon the following sources of information from the Management:

- Draft Scheme of Arrangement and Amalgamation;
- Audited financial statements of MKL, MVSL and MASPL (together referred to as "Companies") for the financial year ended FY 2015-16;
- Financial projections of MVSL from 1<sup>st</sup> October 2016 to 31<sup>st</sup> March 2022;
- Financial Statement of MVSL and MASPL as on 30<sup>th</sup> September 2016;
- Financial Statement of Alloy Steel Running and Finishing business as on 30<sup>th</sup> September 2016;
- Shareholding pattern of MKL as on 30<sup>th</sup> September 2016;
- Shareholding pattern MVSL and MASPL as on 31<sup>st</sup> December 2016;
- Income Tax Return & Tax Audit Annexure of MKL from AY 2016-17;
- Relevant data and information provided to us by the representatives of MVSL and MASPL in written or oral form or in form of soft copy;
- Discussions with the representatives of MVSL and MASPL regarding their past, current & future business projections;
- Information provided by leading database sources, market research reports and other published data;
- Management Representation Letter dated 11<sup>th</sup> January 2017.



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For MUKAND LIMITED  
*[Signature]*  
K. J. MALLYA  
Company Secretary

### 3. SCOPE LIMITATIONS, ASSUMPTIONS, EXCLUSIONS AND DISCLAIMERS

3.1 This Valuation Report, its contents and the results herein are (i) specific to the purpose mentioned in this report; (ii) specific to the date of this Valuation Report and (iii) are based on the financial statement of the Companies. The Management has represented that the business activities of the Companies have been carried out in the normal and ordinary course between 30<sup>th</sup> September 2016 and date of this report and that no material adverse change has occurred in their respective operations and financial position between 30<sup>th</sup> September 2016 and date hereof.

3.2 In accordance with the terms of our engagement, we have assumed and relied upon, without independent verification, (i) the accuracy of information (both written & verbal) made available to us by the Companies and (ii) the accuracy of the information that was publicly available, and formed substantial basis for this Valuation Report. We have not carried out a due diligence or audit of the Companies, nor have we independently investigated or otherwise verified the data provided by the Companies. In rendering this Valuation Report, we have not provided legal, regulatory, tax, accounting or actuarial advice and accordingly we do not assume any responsibility or liability in respect thereof. We do not express any opinion or offer any form of assurance that the explanations, financial information or other information as prepared and provided by the Companies is accurate and complete. 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, in case of any doubt, they have checked the relevance or materiality of any specific information with respect to the present exercise with us.

Accordingly, we do not express any opinion or offer any form of assurance regarding its accuracy and completeness.

3.3 Our conclusions are based on the assumptions and information given by/on behalf of the Companies. The respective Management of the Companies has indicated to us that they have understood that any omissions, inaccuracies or mis-statements 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 Valuation Report. However, nothing has come to our attention to indicate that the information provided was materially mis-stated/incorrect. 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.

3.4 During the course of work, we have relied upon the financial projections of MVSL provided to us by the Management. The assumptions underlying the projections have not been reviewed or independently verified by us and accordingly there can be no assurance that these assumptions are accurate. We must emphasize that realizations of the free cash flow forecast used in the analysis will be dependent on the continuing validity of the assumptions on which they are based. The

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For MUKAND LIMITED  
  
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Company Secretary




assumptions used in their preparation, as we have been explained, are based on the management's present expectation of both the most likely set of future business events and circumstances and the management's course of action related to them. Our analysis, therefore, will not, and cannot be directed to providing any assurance about the achievability of the final projections. Since, the projections relate to the future, actual results may be different from the projected results because events and circumstances do not occur as expected, and differences may be material.

- 3.5 Valuation work, by its very nature, cannot be regarded as an exact science and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgement. Given the same set of facts and using the same assumptions, expert opinion may differ due to number of separate judgement decisions, which have to be made. There can therefore be no standard formulae to establish an undisputable value, although certain formulae are helpful in assessing reasonableness. There is, therefore, no indisputable single entitlement ratio. While we have provided our recommendation of the Entitlement Ratio based on the information available to us and within the scope and constraints of our engagement, others may have a different opinion as to the Entitlement Ratio. You acknowledge and agree that you have the final responsibility for the determination of the Entitlement Ratio at which the proposed Amalgamation shall take place and factors other than this Valuation Report will need to be taken into account in determining the Entitlement Ratio; these will include your own assessment of the proposed Amalgamation and may include the input of other professional advisors.
- 3.6 This report and its contents is prepared for the Companies and to be used only for the specific engagement and regulatory reporting purposes and must not be copied, disclosed or circulated or referred to or quoted in any correspondence, registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or discussion with any person. The report is confidential to the Companies and it is given on the express undertaking that will not be communicated, in whole or in part, to any third party without prior written consent of the valuer. Neither this report nor its contents may be used for any other purpose other than in connection with this proposed Amalgamation without prior written consent of the Valuer.
- 3.7 Whilst all reasonable care has been taken to ensure that the facts stated in the report are accurate and the opinions given are fair and reasonable, neither ourselves, nor any of our partners, officers or employees shall in any way be responsible for the contents stated herein. Accordingly, we make no representation or warranty, express or implied, in respect of completeness, authenticity or accuracy of such statements. We expressly disclaim any and all liabilities, which may arise based upon the information used in this report. We owe responsibility only to the Board of Directors of the Companies and nobody else. We are not liable to any third party in relation to the issue of this report. In no event we shall be liable for any loss, damage, cost or expense arising in any way from fraudulent acts, misrepresentations or wilful default on the part of the Companies, their management, directors, employees or agents.
- 3.8 A valuation of this nature is necessarily based on prevailing stock market, financial, economic and other conditions in general and industry trends in particular as in effect on, and the



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For MUKAND LIMITED  
  
K. J. MALLYA  
Company Secretary

information made available to us as of, the date hereof. Events occurring after the date hereof, may affect this Valuation Report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this Valuation Report. However, we reserve the right to amend or replace the report at any time in the event of any material change in the facts presented to us. The report assumes that the Companies comply 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 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 balance sheet of the Companies. Our conclusion of value assumes that the assets & liabilities of the Companies, reflected in their respective latest balance sheets remain intact as of the date hereof.


- 3.9 This report does not look into business / commercial reasons behind the proposed Amalgamation nor the likely benefits arising out of the same. Similarly, it does not address the relative merits of the proposed Amalgamation as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.
- 3.10 This report is not a substitute for the third party's own due diligence/ appraisal/ enquiries/ independent advice that the third party should undertake for his purpose. In addition, this Valuation Report does not in any manner address the price at which equity shares will trade following approval of the Amalgamation and we express no opinion or recommendation as to how the shareholders or creditors of Companies should vote at their respective meeting(s) to be held in connection with the proposed Amalgamation.
- 3.11 The fee for this engagement is not contingent upon the results of this report.

#### **4. Valuation Approach**

- 4.1 The Scheme *inter-alia* contemplates the Amalgamation of MVSL with MASPL pursuant to the Scheme under sections 230 to 232 of the Companies Act, 2013 and other relevant provisions of the Companies Act, 1956 or Companies Act, 2013 as may be applicable. Arriving at the fair equity share entitlement ratio for the proposed Amalgamation and the fair value per share of MASPL 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 Amalgamation.
- 4.2 It is pertinent to note 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

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Company Secretary

market conditions, and prospects, financial and otherwise, of the Companies, and other factors which generally influence the valuation of companies and their assets.

- 4.3 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.
- 4.4 The cut-off date for the valuation exercise has been considered as 30<sup>th</sup> September, 2016.
- 4.5 There are three generally accepted approaches to valuation:
- a. "Cost" Approach
  - b. "Market" Approach
  - c. "Income" Approach

#### Cost Approach

- 4.6 The cost approach focuses on the net worth or net assets of a company. This valuation approach is mainly used in case where the firm is to be liquidated i.e. it does not meet the "going concern" or where the assets base dominates earnings capability or if it is investment holding company and significant value is derived from its investment holdings.
- 4.7 The Net Asset Value ("NAV") Method under the Cost Approach considers the Assets and Liabilities, including Intangible Assets and Contingent Liabilities. The Net Assets, after reducing the dues to the Preference Shareholders, if any, represent the equity value of a company.
- 4.8 In Break-up Value ("BUV") Method, the assets and liabilities are considered at their realizable or restated value including intangible assets and contingent liabilities or liabilities on account of corporate guarantees given by the company, if any, which are not stated in the Balance Sheet. From the realizable value of the assets, the potential liabilities (including the preference share capital, if any, with the amount of surplus due to them), which would have to be paid, would be deducted and the resultant value is the BUV of the business.

#### Income Approach

- 4.9 The income approach is widely used for valuation under "Going Concern" basis. It focuses on the income generated by the company in the past as well as its future earning capability. The Discounted Cash Flow (DCF) Method under the income approach seeks to arrive at a valuation based on the strength of future cash flows.



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For MUKAND LIMITED

*[Signature]*

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#### Discounted Cash Flow ("DCF") Method

- 4.10 Under the DCF Method, the business is valued by discounting its free cash flows for the explicit forecast period and the perpetuity value thereafter. The free cash flows represent the cash available for distribution to both, the owners and creditors of the business. The free cash flows in the explicit period and those in perpetuity are discounted by the Weighted Average Cost of Capital (WACC). The WACC based on an optimal vis-à-vis actual capital structure, is an appropriate rate of discount to calculate the present value of the future cash flows as it considers equity-debt risk by incorporating debt-equity ratio of the firm.
- 4.11 The perpetuity (terminal) value is calculated based on the business' potential for further growth beyond the explicit forecast period. The "constant growth model" is applied, which implies an expected constant level of growth for perpetuity in the cash flows over the last year of the forecast period. The perpetuity (terminal) value is calculated based on the business' potential for further growth beyond the explicit forecast period. The "constant growth model" is applied, which implies an expected constant level of growth for perpetuity in the cash flows over the last year of the forecast period.
- 4.12 The discounting factor (rate of discounting the future cash flows) reflects not only the time value of money, but also the risk associated with the business' future operations.
- 4.13 The Enterprise Value (aggregate of the present value of explicit period and terminal period cash flows) so derived, is further adjusted for the borrowings, cash, non-operating assets/liabilities (e.g fair value of investments in subsidiaries/associates/mutual funds, value of surplus assets, any contingent liability, etc.) and preference shareholders liability, if any, to arrive at value to the owners of the business.

#### Profit Earning Capacity Value ("PECV") Method

- 4.14 PECV method focuses on the future earning capability of the business enterprise based on the past income generated by the company. The PECV method requires the determination of three parameters, which are relevant to the company whose shares are being valued. These are (i) the "future maintainable profits", (ii) the "appropriate income tax rate" and (iii) the "expected rate of return". The value is determined by capitalizing the future maintainable profits (net of tax) at the Price Earning Multiple of comparable companies.

#### Market Approach

- 4.15 Under the Market approach, the valuation is based on the comparable companies trading or transaction multiples of comparable companies. The Market approach generally reflects the investors' perception about the true worth of the company.



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K. J. MALLYA  
Company Secretary



#### Comparable Companies Multiples ("CCM") Method

- 4.16 The value is determined on the basis of multiples derived from valuations of comparable companies, as manifest in the stock market valuations of listed companies.
- 4.17 This valuation is based on principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation.
- 4.18 Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

#### Comparable Transactions Multiples ("CTM") Method

- 4.19 Under the CTM Method, the value is determined on the basis of multiples derived from valuations of similar transactions in the industry.
- 4.20 Relevant multiples have to be chosen carefully and adjusted for differences between the circumstances. Few of such multiples are EV/ EBITDA multiple and EV/ Revenue multiple.

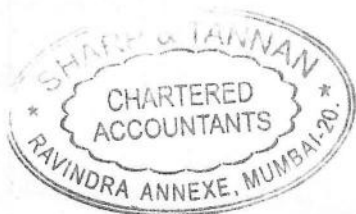
#### **5. Conclusion on Valuation Approach**

- 5.1 We have considered the following methods for valuation of the Companies

##### **5.2 Cost Approach:**

- 5.2.1 As represented to us by the management of MASPL, presently, there are no significant business operations being carried on in MASPL. Hence, in the absence of any business operation, the value of MASPL would be reflected in its underlying surplus cash and other assets and liabilities. Accordingly, we have considered the NAV method as the appropriate method to value the equity shares of MASPL in the present case based on the unaudited balance sheet of MASPL as at 30<sup>th</sup> September 2016. The total value for equity shareholders as arrived under the NAV method is then divided by the total number of equity shares in order to work out the value per equity share.
- 5.2.2 MVSL on the other hand after the proposed Slump sale of the Alloy Steel Rolling and Finishing Business of MKL, will be engaged in an operating and profitable business where the relative earning power of its business is of more importance compared to its underlying assets and liabilities. Hence, in the present case, we have not considered the NAV method and BUW method to value the equity shares of MVSL.

##### **5.3 Market Approach:**



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- 5.3.1 In the present case, we are valuing the equity shares of MVSL and MASPL, which does not have an independent market price and are only subsidiaries that would be engaged in one of the businesses of MKL. Hence, though the equity shares of MKL are listed, the market price method cannot be applied.
- 5.3.2 In the absence of any comparable transaction in the recent past in respect of which complete details of the deal structure, etc. are available in public domain, we are unable to apply the CTM method.
- 5.3.3 In the current case, we have used the CCM method, whereby we have considered profitability based valuation multiple of comparable listed companies with similar business operations for the valuation of MVSL. To arrive at the total value available to the equity shareholders of MVSL, value arrived under CCM method is adjusted for the value of loans, amount payable by MVSL to MKL for the proposed slump sale, non-operating assets/liabilities (e.g value of surplus assets, contingent liability, etc.) if any. The total value for equity shareholders is then divided by the total number of equity shares in order to work out the value per equity share.
- 5.3.4 In the absence of sufficient comparable companies, we have not used this approach for MASPL.

5.4 **Income Approach:**

- 5.4.1 We have considered DCF method for the present valuation exercise of MVSL which considers the future earning capabilities for MVSL, as furnished to us by the management of MVSL and MKL. To arrive at the total value available to the equity shareholders, value arrived under DCF method is adjusted for the value of loans, amount payable by MVSL to Mukand Limited for the proposed slump sale, non-operating assets/liabilities (e.g value of surplus assets, contingent liability, etc.) if any. The total value for equity shareholders is then divided by the total number of equity shares in order to work out the value per equity share.
- 5.4.2 As discussed, in the absence of any current business operations of MASPL, we have not considered the DCF method under Income approach for MASPL.

6. **Basis of Valuation**

- 6.1 The share entitlement ratio of equity shares of MVSL and MASPL for the proposed Amalgamation have been arrived on the basis of relative equity valuation for MVSL and MASPL based on the methodology 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.
- 6.2 As per the Scheme, MVSL shall amalgamate with MASPL. Accordingly, MVSL (post Slump Sale) shall transfer its assets and liabilities to MASPL and MASPL shall issue its equity shares to the equity shareholders of MVSL i.e. MKL.



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- 6.3 Upon the Scheme being effective, the existing equity shares of the MVSL held by MKL shall, without any application or deed, stand cancelled without any payment. Further, the shareholding pattern of the MASPL after the issue of equity shares to MKL shall remain same even after the amalgamation i.e. MASPL shall remain wholly-owned subsidiary of Mukand
- 6.4 Accordingly post the proposed Amalgamation, shareholder of MASPL would be same and hence the proposed Amalgamation is neutral to the shareholders of MKL, MASPL and MVSL, in respect of their shareholding pattern and would not have any economic impact on the value of the shareholders of MKL, MASPL and MVSL.
- 6.5 Considering all the relevant factors and circumstances as discussed and outlined above, we believe the share entitlement ratio as suggested by the Management, in the event of Amalgamation of MVSL with MASPL, as under is fair:

**"3 (three) equity shares of face value of INR 10/- each of MASPL, for every 1 (one) equity share of face value of INR 10/- each held in MVSL."**

Thanking You,  
Yours faithfully,

**For Sharp & Tannan**  
Chartered Accountants  
Firm Registration No. – 109982W

Edwin Augustine  
(Partner)  
Membership No. - 043385  
Date: 12<sup>th</sup> January, 2017  
Place: Mumbai

**SHARP & TANNAN**  
CHARTERED ACCOUNTANTS  
FIRM'S REGISTRATION No. 109982W  
BY THE HAND OF

  
**EDWIN P. AUGUSTINE**  
PARTNER  
MEMBERSHIP No. 043385



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For MUKAND LIMITED  
  
K. J. MALLYA  
Company Secretary