

**REPORT ON VALUATION OF A 100%  
EQUITY OF SHRIRAM AUTOMOTIVE  
PRODUCTS LIMITED FOR PROPOSED  
AMALGAMATION OF SHRIRAM  
AUTOMOTIVE PRODUCTS LIMITED  
WITH SHRIRAM PISTONS & RINGS  
LIMITED**

**VALUATION DATE: MARCH 31, 2018**

May 10, 2018

To,  
Board of Directors/ Audit Committee  
Shriram Automotive Products Ltd. (SAPL) &  
Shriram Pistons & Rings Ltd. (SPRL)

**Sub: Valuation of 100% Equity of Shriram Automotive Products Limited**

Dear Sir,

In accordance with the Engagement Letter we have completed a March 31, 2018 valuation of 100% Equity of Shriram Automotive Products Limited. The valuation is detailed in the attached report. The valuation has been undertaken in accordance with the DCF method of the income approach and trading multiples of market approach and Valuation Standards issued by the ICAI. This Valuation Report may be placed before the Audit Committee and Board of Directors of both SAPL and SPRL and may be produced before judicial, regulatory or government authorities in connection with the Scheme of Amalgamation.

The report details the methodology and component breakdown for the valuation.

Please contact me if you would like any clarification of the report contents.

Yours Sincerely,



**Akhil Bhalla-Partner**  
Membership No:505002  
For and on behalf of  
**JC Bhalla & Co.**  
Firm Regn No:001111N

Place: New Delhi  
Date : May 10, 2018



## INDEX

S. No.	Contents	Page
1	The Assignment	4
2	Intended Use of the Valuation Report	4
3	Intended User of the Valuation Report	4
4	Date of the Valuation Report	5
5	Company Description	5
6	Valuation Standards and Best Practices	5
7	Valuation Approaches and Methods	5
8	Valuation Analysis	6
9	Computation of Fair Market Value	6
	9.1 Income Approach - Discounted Cash Flow Method	6
	9.2 Market Approach - Trading Multiple Method	7
	9.3 Value Conclusion	8
10	Certification of the Fair Market Value	8



## VALUATION REPORT

### 1. THE ASSIGNMENT

JC Bhalla & Co. (hereinafter "Valuer" or "We") have been appointed to prepare and deliver a valuation report on the fair market value of a 100% equity of SAPL as of March 31, 2018. Accordingly, we carried out the valuation which provides an independent opinion on the fair market value of the Subject Interest as of the valuation date.

Client Name	Shriram Pistons & Rings Ltd. (SPRL)
Engagement Officer	Mr. R. Srinivasan
Subject Interest of valuation	100% Equity of SAPL
Purpose of Assignment	<ul style="list-style-type: none"> <li>- To assist the management in establishing the fair market value of a 100% equity of SAPL for the purpose of amalgamation of SAPL and SRPL</li> <li>- Arrive at basis for Discharge of Consideration</li> </ul>
Standard of Value	Fair Market Value (CAS-1)
Premise of Value	Going concern
Level of value	Controlling, Marketable
Valuation Date (Measurement date)	March 31, 2018

### 2. INTENDED USE OF THE VALUATION REPORT

The intended use of the valuation report is to determine an estimate of the fair market value of a 100% equity of SAPL for the proposed amalgamation of SAPL and SRPL as of March 31, 2018.

### 3. INTENDED USER OF THE VALUATION REPORT

This Valuation Report may be placed before the Audit Committee and Board of Directors of both SAPL and SPRL and may be produced before judicial, regulatory or government authorities in connection with the Scheme of Amalgamation.



#### 4. DATE OF THE VALUATION REPORT

The date of the valuation report for this assignment is May 10, 2018.

#### 5. COMPANY DESCRIPTION

Incorporated in 1982, SAPL (erstwhile known as Canind Sales Pvt. Ltd) is a company having its registered office at New Delhi, India. It is an associate of Shriram Pistons & Rings Limited. The company has been in the business of sales & marketing of auto components like cylinder liners/blocks, crankshafts, clutch plates, lubricants etc.

#### 6. VALUATION STANDARDS AND BEST PRACTICES

The fair value has been estimated in accordance with the business valuation practice standards issued by the ICAI (Institute of Chartered Accountants of India) referred to as CAS-1 (Corporate Affairs Standards).

CAS 1 issued by ICAI defines the term 'standard of value' as under:

"the identification of the type of value being utilized in a specific engagement; for example, fair market value (FMV), fair value, investment value".

Considering the purpose of valuation, the 'standard of value' for the estimation of the FMV of a 100% equity stake on a standalone controlling marketable interest basis as on the valuation date is 'Fair Market Value'.

The term Fair Market Value is defined as under:

"the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts".

#### 7. VALUATION APPROACHES AND METHODS

The valuation process has been applied to develop a well-supported estimate of a defined value based on consideration of available and relevant information. For estimating fair market value of unquoted equity shares, three generally accepted valuation approaches are considered namely asset or cost, market and income. The selection and application of one or more of these generally accepted approaches depends upon the purpose of valuation, subject transaction, and the quality and quantity of information available for analysis.



Considering the purpose of valuation and based on the available information, we have used DCF (Discounted Cash Flow) method of income approach and trading multiples of market approach for estimating the value of equity stake. We have not considered asset approach of valuation as this is used less in the valuation of operating companies.

We reviewed financial projections provided by the management of SAPL. The valuation process included consideration of factors affecting the operations of SAPL and its ability to generate future cash flows through operations.

The factors considered in our analysis inter-alia included:

- The nature and historical background of SAPL.
- Financial and economic conditions affecting the business of SAPL and its industry.
- Historical financial results of SAPL
- Trends and outlook of auto component industry

## 8. VALUATION ANALYSIS

A valuation of a business, a business interest is performed 'as of' a specific date. This date generally, serves as a critical cut-off point, as the valuer considers what was known or foreseeable at this date. It is a settled principle in valuation that market conditions and evidence of values must reflect those available as on the valuation date. Accordingly, we reviewed the historical performance of SAPL and information available in public domain about auto component industry and companies.

## 9. COMPUTATION OF FAIR MARKET VALUE

### 9.1 Income Approach - Discounted Cash Flow Method

DCF is a method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate. The two key components in DCF model are "future expected cash flows" and "discount rate". The change in value is positively related to the cash flows and negatively related to the discount rate. The value of operating assets under DCF method is determined as under.

- |                 |  |
|-----------------|--|
| <b>Step I</b>   | Estimation of FCFF (Free Cash Flows to the Firm)                               |
| <b>Step II</b>  | Development of a discount rate or required rate of return consistent with FCFF |
| <b>Step III</b> | Discounting of the explicit projection period FCFF                             |
| <b>Step IV</b>  | Estimation of the terminal value   |



**Step V** Summing up the present value of the explicit projection period FCFF and the terminal value

In order to determine value of the firm (i.e. value of operating assets and non-operating assets) value of non-operating asset, if any, as of the valuation date is added to the value of operating assets determined in Step V above. Further, Interest bearing liabilities are subtracted from the value of the firm in order to derive the value of equity.

**Calculation of present value of FCFF and Terminal Value, and value of Operating Assets of SAPL**

Particulars	INR lacs
Value of firm before mid-year adjustment	4,106.75
<b>Value of firm after mid-year adjustment</b>	<b>4,397.77</b>

**9.2 Market Approach – Trading Multiple Method**

The market approach is defined in the International Glossary of Business Valuation Terms as "a general way of determining a value indication of a business, business ownership interest, security, or intangible asset by using one or more methods that compare the subject to similar businesses, business ownership interests, securities, or intangible assets that have been sold".

There are two methods of valuation under market approach namely guideline merged and acquired (transaction) method and guideline public company method. We have used the second method.

Considering the nature of business of the Subject Company and availability of reliable data, the most suitable multiple is identified below:

MVIC/ EBITDA

For the purpose of Subject Company valuation, we have used normalized MVIC (Market Value of Invested Capital) which is computed as under

$MVIC = \text{Number of shares} \times \text{MPS} + \text{book value of debt} + \text{minority interest} - \text{CWIP} - \text{non operating investment}$ .

Value estimation using multiples

The EBITDA multiple (MVIC/EBITDA) estimated for the valuation is 8.80 and the following steps were used for the computation of the same. The multiple based on data of comparable companies (comps) has been computed as under:



Step I MVIC/EBITDA for all the comps individually

Step II simple average of all the figures computed above

Step III Multiple = 1/ Average multiple computed in Step II above

### Value under Market Approach:

On the basis of above analysis, we have estimated the following value:

Particulars	INR lacs
Value of Operating Assets	3652.89

### 9.3 Value Conclusion

Under this process we attempt to estimate a single value by assigning weights under various methods. Weight assignment is a subjective process and it can vary based on judgement and analysis. We have given 80% weights to DCF and 20% to the value estimated under market approach. The lower weight to market approach is given because there is only one listed guideline company akin to the Subject Company. The FMV of 100% equity of SAPL is estimated as under:

Particulars	Market Approach	Income Approach	INR Lacs
Value of Operating Assets (INR lacs)	3652.89	4,397.77	
Weight	20%	80%	
Weighted value of Operating Assets (INR lacs)	730.58	3,518.22	<b>4,248.80</b>
Add: DTA			51.26
Add: Non-Current Assets			12.79
Add: Non-Operating Cash			79.86
Less: Non-current Liabilities			-124.04
Less: Interest bearing debts			-264.88
<b>Value of Equity</b>			<b>4,003.80</b>

### 10. CERTIFICATION OF THE FAIR MARKET VALUE

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in the valuation report are true and correct.
- The reported analyses, opinions and conclusions are limited by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions and conclusions.
- We have no present or prospective interest in SAPL and we have no personal interest with respect to the parties involved.
- We have no bias with respect to any matter that is the subject of the valuation report or to the parties involved with this assignment.





- v. Our compensation for completing this assignment is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this valuation.

#### Summary of Our Opinion

Based on our analysis, we are of the opinion that the Fair Market Value of 100% equity of SAPL in accordance with CAS-1 is **INR 4003.80 Lakhs.**

We have been informed by the Management of SPRL that the consideration of Amalgamation of SAPL with SPRL would be discharged as under:

- 1. Allotment of 24 (Twenty Four) Nos. of 4.2% fully paid up Non-Participating, Redeemable, Non-Convertible, Cumulative Preference Shares of Rs. 100 each, of SPRL for every 1 (one) equity share of SAPL.**

**AND**

- 2. Balance consideration to be paid in Cash**

In our opinion, the consideration of Amalgamation of SAPL with SPRL be discharged as under:

- 1. Allotment of 24 (Twenty Four) Nos. of 4.2% fully paid up Non-Participating, Redeemable, Non-Convertible, Cumulative Preference Shares of Rs. 100 each, of SPRL at par for every 1 (one) equity share of SAPL.**
- 2. Payment of Cash consideration of Rs. 930/- (Rupees Nine Hundred Thirty only) for every 1 (one) equity share of SAPL by suitably rounding off the consideration value in cash per share.**



**Akhil Bhalla-Partner**  
Membership No:505002  
For and on behalf of  
**JC Bhalla & Co.**  
Firm Regn No:001111N

Place: New Delhi  
Date : May 10, 2018

