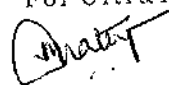


REPORT ON
FAIR VALUATION
OF
CEMENT PLANTS
OF
JAIPRAKASH ASSOCIATES LIMITED ("JAL")
AND
JAYPEE CEMENT CORPORATION LIMITED ("JCCL")

FOR THE PURPOSE
OF
THEIR ACQUISITION
BY
ULTRATECH CEMENT LIMITED

("ULTRATECH" OR "THE ACQUIRER COMPANY")

Certified True Copy
For UltraTech Cement Limited



S. K. Chatterjee
Company Secretary

Bansi S. Mehta & Co.
Chartered Accountants,
Merchant Chamber, 3rd floor,
41, New Marine Lines,
Mumbai-400 020.

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1. Introduction

1.1 Background and Terms of Engagement

There is a proposal before the Boards of Directors of JAL, JCCL and Ultratech to consider the transfer of certain Cement Plants (as detailed in para 1.2) (hereinafter referred to as the "Cement Plants") of JAL based in Madhya Pradesh, Uttar Pradesh, Uttarakhand and Himachal Pradesh and of JCCL based in Andhra Pradesh, to Ultratech, as a going concern.

We have been asked by the Management of Ultratech and JAL ("the Managements") to undertake the fair valuation of the Cement Plants to be acquired by Ultratech. This report ("Report") sets out the findings of our exercise. For the said purpose, the Valuation Date ("Valuation Date") is considered to be the date by which the transaction is to be effective, which is also the appointed date.

1.2 Profile of the Cement Plants proposed to be acquired

The list of the cement plants to be acquired along with their capacities and location are as follows:

Sr. No.	Location	Type of Unit	Capacity (mtpa)	
			Clinker	Cement
JAL				
Satna Cluster				
1	Dalla	Integrated	2.1	0.5
2	JP Super (under commissioning)	Clinker	2.3	-
3	Tanda	Grinding	-	1.0
4	Sikanderabad	Grinding	-	1.0
5	Bara * (under commissioning)	Grinding	-	4.0
6	Bela	Integrated	2.1	2.6
7	Sidhi	Integrated	3.1	2.3
HP Cluster				
8	Baga	Integrated	3.3	1.7
9	Bagheri	Grinding	-	2.0
10	Roorkee	Grinding	-	1.1
<i>Total</i>			<i>12.9</i>	<i>16.2</i>
JCCL (South Cluster)				
11	Balaji	Integrated	3.3	5.0
<i>Total</i>			<i>3.3</i>	<i>5.0</i>
Total Capacity of JAL and JCCL			16.2	21.2

* Bara Plant is a part of Prayagraj Power Generation Company Limited, a subsidiary of Jaiprakash Power Ventures Limited, which in turn is a subsidiary of JAL.

1.3 Profile of Ultratech

Ultratech is a public limited company incorporated under the Companies Act, 1956, having its registered office at B Wing, Ahura Centre, 2nd Floor, Mahakali Caves Road, Andheri



manufacture and sale of various grades and types of cement, ready mix concrete and other cement related products. The equity shares of the Acquirer Company are listed on National Stock Exchange of India Limited and BSE Limited.



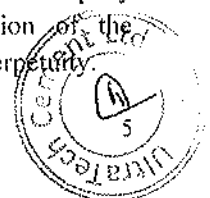
2. Data Obtained

- 2.1 We have called for and obtained such data, information, etc. as were necessary for the purpose of our assignment, which have been made available to us by the Managements. **Appendix A** hereto broadly summarises the data obtained.
- 2.2 For the purpose of our assignment, we have relied on such data summarized in the said Appendix and other related information and explanations provided to us in this regard.



3. Approach to Valuation

- 3.1. It is universally recognized that valuation is not an exact science and that estimating values necessarily involves selecting a method or an approach that is suitable for the purpose.
- 3.2. A classical approach to valuation is to look at the future cash flows of the company, so as to arrive at a valuation that would, primarily, be based on the present value of such future cash flows by discounting such future cash flows using an appropriate rate of discounting. This method of valuation is popularly known as the Discounted Cash Flow Approach ("the DCF Approach").
- 3.3. Other approaches prevalent in valuation of cement business are applying replacement cost approach for setting up the cement capacity and applying a benchmark multiple to the cement manufacturing capacity. Such benchmarks would be based on contemporary cement deals in the market and enterprise value of cement business based on the quoted market price of various cement companies.
- 3.4. For the purpose of arriving at a fair value of the Cement Plants, we have adopted the approach to valuation commonly adopted in valuation of a cement plant viz:
- 3.4.1. The DCF Approach
- 3.4.2. Replacement Cost Approach
- 3.4.3. Benchmark multiple per tonne of cement production capacity ("Benchmark Approach")
- 3.5. The steps adopted for the valuation based on DCF Approach are as follows:
- 3.5.1. For the purpose of valuation, we have reviewed the projections given to us by the Managements for a period of ten years.
- 3.5.2. We have taken the earnings before tax, to which we have added back depreciation and interest. Further such earnings are adjusted for non-operating incomes and expenses so as to arrive at operating Earnings before Interest Depreciation and Tax (EBIDTA).
- 3.5.3. The EBIDTA as envisaged in 3.5.2 has been adjusted by capital outlays, as also the increase or decrease in working capital (considering nil opening working capital balance) and the income tax liability so as to arrive at the Free Cash Flows in the respective future years.
- 3.5.4. The Free Cash Flows arrived at above are discounted at the Weighted Average Cost of Capital ("WACC") to arrive at the Present Value ("PV") thereof. For this purpose, we have considered the cost of debt as 9.35% as applicable to the Acquirer Company as provided to us. The weight of debt is taken at 70% in the explicit period based on the Management's perception of debt equity that is likely to be maintained by the Acquirer Company during the said period.
- 3.5.5. The estimated Free Cash Flow for the last projected year has been capitalized using WACC, with a perpetual growth rate of 5% and weight of debt at 50% based on the expectation of debt equity that is likely to be maintained by the Acquirer Company in the long term beyond explicit period, based on the perception of the Management. The same is thereafter discounted to arrive at the PV of perpetuity.



- 3.5.6. The amount of unutilized tax credit on account of Minimum Alternate Tax ("MAT") has been discounted to arrive at its PV.
- 3.5.7. The PV of Free Cash Flows, perpetuity and the PV of unutilized MAT credit at the end of the explicit period are aggregated to arrive at an Enterprise Value ("EV").
- 3.6. The broad description of steps adopted for the valuation based on the Replacement Cost Approach are as follows:
- 3.6.1. Considered the market perceived current per tonne benchmark cost of setting up a greenfield project.
- 3.6.2. Applied this multiple to the cement generating capacity of the plants to be acquired to arrive at their EV.
- 3.6.3. The EV so arrived at above is reduced by the amount of capital expenditure required to bring under commissioning plants to operating level.
- 3.7. The broad description of steps adopted for the valuation based on the Benchmark Approach are as follows:
- 3.7.1. EV/Capacity of listed companies:
- 3.7.1.1. Considered the EV/capacity of listed companies in the cement industry ("Comparable Companies").
- 3.7.1.2. Applied such average EV/tonne to the cement generating capacity of the plants to be acquired to arrive at its EV.
- 3.7.1.3. The EV so arrived at above is reduced by the amount of capital expenditure required to bring under commissioning plants to operating level.
- 3.7.2. Recent Deals in the Cement Industry:
- 3.7.2.1. We have also considered the multiples that are derived based on the reported deals in the space of cement capacity acquisition.
- 3.7.2.2. We have applied this multiple to the cement generating capacity of the plants to be acquired.
- 3.7.2.3. The EV so arrived at above is reduced by the amount of capital expenditure required to bring under commissioning plants to operating level.
- 3.8. **Valuation of the Instruments to be allotted:**
- 3.8.1. As represented by the Management, 31,249 Non-convertible Debentures of face and paid up value Rs. 10,00,000 each aggregating to Rs. 3,124.90 Crores and 150,010 Redeemable Preference Shares of face and paid up value Rs. 1,00,000 each aggregating to Rs. 1500.10 Crores are proposed to be allotted to JAL and JCCL for the proposed transfer.
- 3.8.2. The Fair Value of the Non-Convertible Debentures proposed to be allotted is considered to be the same as its Face Value since, as informed by the Managements, the terms of issue of Debentures would make it an issue at par considering the prevailing market yield for a similar issuer and instrument.



3.8.3. In connection with determining the fair value of the Redeemable Preference shares proposed to be allotted, as per the terms of such preference shares, these would be redeemed upon fulfillment of certain conditions. As represented to us by the Managements, the conditions are expected to be met by the effective date of the transaction. Hence, we have considered the fair value to be the same as the face value of such redeemable preference shares.



4. Valuation and Conclusion

- 4.1. Based on the foregoing, we observe that the EV of the Cement Plants of JAL and JCCL would be in the range of Rs. 16,160 Crores to Rs. 16,498 Crores.
- 4.2. As represented by the Management, 31,249 Non-convertible Debentures of face and paid up value Rs. 10,00,000 each aggregating to Rs. 3,124.90 Crores and 150,010 Redeemable Preference Shares of face and paid up value Rs. 1,00,000 each aggregating to Rs. 1500.10 Crores are proposed to be allotted to JAL and JCCL for the proposed transfer.
- 4.3. Considering the debt and other liabilities of the Cement Plants to be transferred and the fair value of the instruments as derived under para 3.8, the said allotment is fair.



5. Limitations and disclaimers

- 5.1 Our Report is subject to the scope of limitations detailed hereinafter. As such the report is to be read in totality and not in parts. This report has been prepared solely for the purpose set out in this report and should not be reproduced (in part or otherwise) in any other document whatsoever without our written consent.
- 5.2 Our valuation is based on the information furnished to us being complete and accurate in all material respect. The same is based on the estimates of future financial performance as projected by the Managements, which represents their view of reasonable expectations at the point in time when they were prepared, but such information and estimates are not offered as assurances that the particular level of income or profit will be achieved or events will occur as predicted. Actual results achieved during the period covered by the prospective financial statements may vary from those contained in the statement and the variation may be material.
- 5.3 The EV arrived at under the DCF Approach is based on the working capital position as conveyed to us on zero date and any change in the same on the Closing Date would impact the cash flow and, hence, the valuation.
- 5.4 Our scope of work does not enable us to accept responsibility for the accuracy and completeness of the information provided to us. We have evaluated and performed checks on the projections provided but have not performed any audit, review or examination of any of the historical or prospective information used and therefore, do not express any opinion with regard to the same.
- 5.5 The information presented in the Report does not reflect the outcome of any due diligence procedures. The reader is cautioned that the outcome of that process could change the information herein and, therefore, the valuation materially.
- 5.6 The Report is meant for the purpose mentioned in Para 1.1 and should not be used for any purpose other than the purpose mentioned therein.
- 5.7 Our Report should be used only by the Managements and by no other person. The Report should not be copied or reproduced without obtaining our prior written approval for any purpose other than the purpose for which it is prepared. The report may be shared with the regulators and the Merchant Banker providing Fairness Opinion on this Report
- 5.8 The projected working results are those as prepared by the Managements and furnished to us for the purposes of the Report. Although, we have reviewed the underlying assumptions and parameters, we accept no responsibility for them, or the ultimate accuracy and realization of the forecasts.
- 5.9 Our findings are based on the understanding that all the necessary approvals for the transfer and the functioning of the plants at the proposed level are met by the effective date of the transaction.

We have relied on the judgment made by the Managements and, accordingly, our valuation does not consider the assumption of contingent liabilities materialising (other than those



specified by the Managements and the Auditors). If there were any omissions, inaccuracies or misrepresentations of the information provided by the Managements, then this may have the effect on our valuation computations.

- 5.11 No investigation of the Cement Plant's claim to title of assets has been made for the purpose of this valuation and their claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets. Therefore, no responsibility is assumed for matters of a legal nature. The report is not, nor should it be construed, as our opining or certifying the compliance with the provisions of any law including company and taxation laws or as regards any legal, accounting or taxation implications or issues.
- 5.12 Any person/ party intending to provide finance / deal in the shares / business of any of the Companies shall do so after seeking their own professional advice and after carrying out their own due diligence procedures to ensure that they are taking an informed decision.
- 5.13 We have relied upon the written representations received from the Managements that the information contained in this Report is materially accurate and complete, fair in the manner of its portrayal and therefore forms a reliable basis for the valuation.
- 5.14 Our valuation is based on the market conditions and the regulatory environment that currently exist. However, changes to the same in the future could impact the Cement Plants valued by us and the industry it operates in, which may impact our valuation.
- 5.15 We have no obligation to update this Report because of events or transactions occurring subsequent to the date of this Report.



6. Gratitude

We are grateful to the Managements for making information and particulars available to us, often at a short notice, without which our assignment would not have been concluded in a time-bound manner.

PLACE: MUMBAI

BANSI S. MEHTA & CO.

DATE: JULY 4, 2016



Bansi S. Mehta & Co.

CHARTERED ACCOUNTANTS



Appendix A: Broad Summary of Data Obtained**From the Managements**

1. Brief note on the business profile of the Cement Plants to be acquired and Ultratech.
2. Projected Financial Statements of the Cement plants for 10 years.
3. Long term cost of Borrowing and proposed debt equity structure for the Cement Plants.
4. Various Reports outlining the cement industry and multiples of cement companies, their EV/tonne and recent deals.
5. Details of the instruments proposed to be issued.
6. Answers to specific questions and issues raised by us after examining the foregoing data.

From publicly available sources

1. The Risk free rate of return used in the calculation of cost of equity is taken from Reserve Bank of India website.
2. Prowess Database for establishing comparability.
3. Website of Ultratech, JAL and Comparable Companies for their financial statements and business background.
4. Information on recent deals in cement industry from news articles and websites of the companies involved.
5. Websites of National Stock Exchange of India Limited and BSE Limited.

